

PRICE: ONE SHILLING

VOL. LI (Vol. 2 New Series) No. 556

Northwestern University

DEC 19 1939

The Joseph Schettner  
Library of Commerce

# ACCOUNTANCY



THE JOURNAL  
OF  
INCORPORATED ACCOUNTANTS

*(Established 1889)*

DECEMBER, 1939

# **"HOLLERITH"**

THE ELECTRICAL METHOD OF PUNCHED CARD ACCOUNTING

## **NATIONAL SERVICE**

At a time when Industry is being called upon to fill the ranks of the Navy, Army and Air Force and withal, to maintain high levels of output; at such a time, the need for mechanisation on the home front becomes more insistent than ever.

Costs, Stores Accounting, Production Efficiency and all that is bound up in the term Management Control, call for the speed, accuracy and economy inherent in "Hollerith" methods.

For those unable to use a complete installation effectively, the Company's Service Bureaux at Letchworth, Birmingham, Bristol, Leeds, Manchester, Newcastle, Sheffield and Glasgow are ready to undertake any suitable work of a temporary or auxiliary nature.



THE BRITISH TABULATING MACHINE COMPANY LIMITED  
VICTORIA HOUSE, SOUTHAMPTON ROW, LONDON, W.C.1.







# ACCOUNTANCY

*Published by*  
*The Society of Incorporated Accountants and Auditors*  
*Incorporated Accountants' Hall*  
*Victoria Embankment*  
*London, W.C.2*

*President:* PERCY TOOTHILL, F.S.A.A.

*Vice-President:* RICHARD A. WITTY, F.S.A.A.

*Secretary:* A. A. GARRETT, M.B.E., M.A.

*Deputy Secretary:* LEO T. LITTLE, B.Sc.

**VOL. LI. (Vol. 2 New Series)**

**DÉCEMBER, 1939**

**Number 556**

## CONTENTS

	PAGE		PAGE		PAGE
PROFESSIONAL NOTES		EDITORIAL		POINTS FROM PUBLISHED	
Grants for Air Raid Shelters ...	51	Tax, Loan or Levy? ...	60	ACCOUNTS ...	69
—And Accountants' Certificates ...	52	TAXATION		LECTURE	
Signing for Absentee Practitioners ...	52	ARTICLE—Expenditure on A.R.P. ...	61	Britain's War Finance ...	70
Avoiding Waste ...	53	Artificial Transactions ...	62	IN PARLIAMENT ...	73
The First Instalment of War		Date of Commencement... ..	62	THE MONTH'S PUBLICATIONS	74
Borrowing ...	53	RECENT TAX CASES ...	63	SOCIETY OF INCORPORATED	
The Society's Examinations ...	53	THE EMERGENCY ACTS AND		ACCOUNTANTS	
LEADING ARTICLES		ORDERS ...	65	Council Meeting ...	75
Accountancy in War-time ...	54	LEGAL NOTES ...	67	District Societies and Branches	76
War Compensation ...	55	FINANCE		Membership ...	76
Property and the War ...	57	The Month in the City ...	67	Personal Notes ...	76
"Residence" under the Finance				Change ...	76
Regulations ...	58			Removals ...	76
				Obituary ...	76

## PROFESSIONAL NOTES

### Grants for Air Raid Shelters—

By the Civil Defence Act every sole occupier of factory premises and every owner of a commercial building as defined in the Act is required to provide air raid shelters, provided more than 50 persons work in the premises and provided they are situated in one of a number of specified areas, laid down in the Civil Defence (Specified Areas) Order. Proposals for such shelters were required to be submitted by the middle of last month, and if the grant towards the capital expenditure incurred on providing shelters, as provided for under the Act, is to be obtained, it was necessary for the preparatory measures to have been taken by September 30 and the shelters must be substantially completed by the end of this year. Thus, accountants whose clients have submitted their plans but have not yet made much progress with the actual work of building should advise their clients that the work must be finished as soon as possible, and claim forms submitted, if the grant is to be obtained. The amount of the grant allowed is the standard rate of income tax for 1939-40 (7s.

in the £) upon the agreed capital expenditure, subject to an over-riding standard. In exceptional circumstances, however, an excess over this standard may be allowed. The standard is determined in the following manner. The number of people for whom the shelter has been provided (as calculated according to the required space per person laid down by the Code issued by the Home Office) is multiplied by whichever of the following sums is appropriate, namely, (a) £7 in the case of a shelter constructed in, under or abutting upon a factory or other building, and (b) £3 10s. in the case of a shelter constructed otherwise, e.g., some form of trench shelter. The product of these two factors is the standard, if the shelter has not been provided for more people than is required by the Act. If, however, the capacity of the shelter is greater than is required for the obligatory number of persons, the standard is reduced in proportion to the excess. The exceptional cases in which a capital cost greater than the standard is allowed are cases where some special technical difficulty is

involved in the building of a shelter, or where extra provision has been made for casualties or A.R.P. workers—see Air Raid Shelter (Standards of Expenditure) Regulations No. 906.

#### —and Accountants' Certificates

Having arrived at the standard in any given case, the Ministry of Home Security will compare with it the actual capital cost, as returned on the official form. Provided no question is raised as to the actual capital cost, and if the standard is not exceeded, grant at 7s. in the £ on the actual cost would be payable, payment being made through the Inland Revenue Authorities. If the standard cost is exceeded, that cost, and not the actual cost, would rank for grant. The official form for claiming grants, which is rather different for factories than for commercial buildings, may be certified by a qualified accountant. The accountants' certificate covers the figures on the form relating to cost. The main feature of the cost figures, from an accountancy point of view, is the division between capital and revenue items which is required to be shown on the form. It may be suggested that accountants would do well to agree in advance the allocation between the two classes of expenditure with their local Inspector of Taxes, who will eventually be required to give official approval to the allocation. The Ministry require in support of the claim form statements showing in detail how the figures for expenses of a capital nature and of a revenue nature are arrived at. If any work of a constructional nature was done by contract, a brief note of such work, for example, the relative estimate and its cost, will suffice. If, however, the construction of the shelters in whole or in part was undertaken by the client's own workpeople, the supporting statements should show the cost of the work analysed between (a) the labour or wages cost, (b) the nature and cost of materials purchased, (c) the nature and cost of materials taken from stock, and (d) any overhead expenses allocated to the work. Any other items of expenditure not relating to construction but included in the claim form should be detailed, whether they are of a capital or a revenue nature, to show their nature and cost.

#### Signing for Absentee Practitioners

Practising accountants who are called away for war service, and who, in the absence of any remaining partners, make arrangements with other members of the profession for the carrying on of their practices, may be considering the form of signature to be used by the acting accountant on accounts, reports and letters. Where such arrangements have been made the absentee practitioner would be liable to any third party in respect of the wrongful acts or negligence of the acting practitioner, since the two parties would stand to each other as principal to agent and the ordinary law of principal and agent would apply.

In these circumstances, any of several forms of signature may equally well be used, so far as the question of responsibility is concerned. But it would be desirable that clients and other persons with whom the acting accountant would be in communication on behalf of the absentee practitioner should be put on notice. Thus, if William Brown, Incorporated Accountant, is away on war service and has come to an agreement with John Jones, Incorporated Accountant, for the carrying on of his practice, John Jones may sign:—

John Jones, Incorporated Accountant,  
on behalf of William Brown, Incorporated  
Accountant, absent on war service.

or William Brown, Incorporated Accountant  
(absent on war service), by John Jones,  
Incorporated Accountant.

Either of these forms of signature puts on notice the clients or others who are reading the document concerned. Alternatively, if all clients of William Brown and others with whom he had dealings received a notification that he was absent or was about to become absent on war service and that he had made arrangements with John Jones for the carrying on of his practice, the signature could be of the ordinary *per pro* type:—

John Jones, Incorporated Accountant,  
*per pro* William Brown, Incorporated  
Accountant;

or even

William Brown, Incorporated Accountant.

These two forms of signature are less cumbersome than the other two, and previous written advice to those concerned could not fail to put them on notice of the arrangements. The despatch of such a written advice—care being exercised to ensure that it is not sent to persons who are not clients or with whom the absentee practitioner does not have dealings, and that it in no way offends against the professional ban on advertising—appears desirable, and the signing of documents by the acting practitioner could then be as in the last two examples, though either of the first two forms could be adopted if desired. The position remains the same if the person carrying on the practice is a member of another professional body of accountants, or if he does not hold a professional qualification.

On the question of responsibility, the absentee practitioner, the principal, would have cause for action against the acting practitioner, his agent, if the latter acted outside his authority or was negligent. But the principal would be liable to a third party for any wrongful acts or negligence of the agent, unless the third party was put on notice that the agent's authority was limited, and that any particular

transaction was outside its limited scope. However, it would not generally be necessary to limit the acting practitioner's authority. In the usual case, indeed, it would be desirable for the acting practitioner to have a full power of attorney executed by the absentee practitioner. In certain cases a power of attorney may be essential, as, for example, if the absentee practitioner's lease had to be renewed or extended, if transfers of securities registered in the name of the absentee practitioner had to be executed, and—in all probability—if the acting practitioner needed to draw cheques on the absentee practitioner's account and to sign them in his name.

### Avoiding Waste

The accountant's training makes him especially sensitive to the existence of waste and impatient at its continuance. The beginning of a war is in itself not conducive to the avoidance of waste, since in spite of controlled industry there is bound to be some scrambling for materials, some duplication of effort, and some seepage of efficiency. The professional accountant in his daily contacts with business, the major part of which is affected by the war, cannot help finding evidence of these unwelcome features. Knowing the need for a vigilant watch on all items of expenditure even in normal circumstances, he will welcome the recent decision to set up a committee to fulfil this purpose on a national scale during the war. A Select Committee on Expenditure is to be created, only three months after the outbreak of war. On the last occasion we waited for three years, until 1917, before a similar committee was set up. That committee was directly instrumental in saving many millions of pounds for the Exchequer, and indirectly in considerably intensifying our war effort. The committee now to be instituted will have full powers for examining all expenditure connected with the war, and there seems no real reason why, since war affects every aspect of the national accounts, the committee should not have a watching brief over the disposal of the whole of the State revenue. The constitution and membership of the committee is an important indication of its probable efficiency, and it will be regrettable if the fact that it is a Select Committee of the House of Commons means it will not have the services of business men and accountants as committee members. If such experienced persons were added to the committee they could not fail to provide a wider view of the problems involved than might be open to members of Parliament alone. After all, the expenditure of the nation's money on war should be regarded as a business matter, and the ultimate checking of this expenditure and stoppage of any wasteful outlets should be largely entrusted to those engaged on similar tasks as part of their everyday work.

### The First Instalment of War Borrowing

The small investor is the first to be approached by the Government for war loans. He will undoubtedly make a most encouraging response, not simply for patriotic motives but also because the new loans are offered on very satisfactory terms. A fresh series of savings certificates, which may be purchased in units of 15s., is coupled with the issue of a new type of security called Defence Bonds, divided into units of £5. The savings certificates increase in value to 17s. 6d. after five years and to 20s. 6d. after ten years, compared with 17s. 3d. and 20s. respectively in the case of the issue they replace. The interest on these certificates works out at 3.17 per cent. over the whole ten years, and since this is free of income tax, it represents a higher yield than could be obtained on any comparable security. The limit of any one individual's holding will continue to be 500 certificates. In the past accountants who have been asked for advice by the small investor have usually regarded savings certificates as the obvious first choice, and they will doubtless continue to do so. The Defence Bonds are issued at par and carry interest at 3 per cent. per annum. They will be redeemable seven years after the date of purchase at a premium of £1 per cent. Income tax is payable on these bonds, but is not to be deducted at source, so that the formalities of claiming repayment of tax will be obviated. Another attractive feature of the bonds is that not only may they be encashed at any time on six months' notice, but special arrangements have been made to enable the bondholder, in the event of private emergency, to obtain immediate repayment. The small man could have no better second line of reserve than an investment in these bonds, after his quota of savings certificates is filled, and the professional accountant will doubtless advise accordingly. Any individual holding is limited to £1,000.

### The Society's Examinations

The next examinations of the Society, which were postponed as a result of the war, will be held on December 19 to 21. There will be two centres in England and Wales—one at Taunton School, as previously announced, and one at Southport, Lancashire. Candidates in Scotland, Northern Ireland and Eire will attend at the usual centres in Glasgow, Belfast and Dublin. Arrangements have been made for the accommodation of candidates in the school buildings at Taunton and in hotels at Southport. Formal authorities to sit for the examinations will be despatched to all candidates on or about December 7. The actual dates of the examinations are:—Preliminary, December 19 and 20; Intermediate, December 20 and 21 (not, as previously announced, December 19 and 20); Final, December 19, 20 and 21.



## Accountancy in War-time

By **WALTER HOLMAN**, *Incorporated Accountant*  
(Immediate Past President, Society of Incorporated Accountants).

"To flee or not to flee": that was the question which faced the accountancy practitioner, in common with his opposite number in other professions, when the prospect of hostilities became imminent. Whether 'twas nobler in the City to risk the bombs and splinters of unwelcome visitors or to take flight into a reception area—that problem of conflicting possibilities was solved according to individual judgment and temperament and the future alone will decide the wisdom or otherwise of the choice made.

But the solution of one problem only introduced others. How far could normal industrial and business activity be continued? To what extent would the commercial community be able to avail itself of our professional services? Would the demands of national service deprive us of our staff? If not, should we be able to continue to employ them? Time has already contributed something by way of answer to these and other germane questions, and we may consider ourselves fortunate in that, whatever changes in the economic life of the country may be in store, they seem likely to emerge by evolutionary stages rather than by convulsive movements. After the first few weeks of apprehension it can be clearly seen that business must continue as near to "usual" as possible: that the official fiat which made accountancy a reserved occupation was fully justified because the demand for our services is likely to be not only maintained, but increased, and that we are faced with the prospect of conditions similar to those which made the last war a nightmare to many, namely, a gradual increase in the volume and complication of work, accompanied by a less gradual depletion of staff.

In estimating optimistically the prospects of accountancy in war time, I do not overlook the changes which war imposes on the trading community. Flourishing concerns find their businesses curtailed and even stopped, while credit restrictions hamper and limit those which are financially weak. Other concerns experience unimagined demands entailing rapid expansion which may overtax the resources of those financially weak but may, on the other hand, raise them to welcome planes of stability and even affluence. The practitioner is fortunate who can number among his clients many of the latter as well as some of the former, and if so he will probably find that on balance he will make on the swings what he stands to lose on the roundabouts.

There are three aspects of the war which to my mind will ensure the continuance of accountancy as an independent and indispensable part of the economic structure of the country.

The financial is the most obvious, for it has already seized the imaginations, and will soon seize the

pockets, of the community generally. The opening gambit of the Chancellor of the Exchequer in what must be the elaborate problem of war-time finance will impose upon all businesses, and in most cases on their accountants, the necessity of preparing alternative computations for National Defence Contribution and Excess Profits Tax, together with detailed workings of pre-war standards and capital fluctuations, all adjusted to the calendar year irrespective of the accounting year of the businesses concerned. Those who remember the services rendered by the accountancy profession to the commercial community in connection with Excess Profits Duty will not be inclined to under-estimate the probable demand for similar services during this war, or the benefit which will thereby accrue to practitioners.

It is not unnatural that estimates of the possible effects of the war on our professional work should be based on the experiences of the Great War, but conditions are by no means the same. In 1914 machinery for war-time administration was not in existence, and professional firms were largely employed as units for necessary investigations required in connection with, for example, concerns of enemy origin or which had been trading with the enemy, and Government contracts. On this occasion elaborate machinery for the regulation and control of industry and commerce had been installed and was set in motion on the outbreak of hostilities. In order to reinforce the Civil Service charged with responsibility for working all this machinery, as well as for meeting the demands of industrial concerns, national registers of people with professional and technical qualifications had been compiled, and the Accountancy National Register has already been used for these purposes. The effect of this is likely to be a reduced demand for the services of professional firms as units, and this view is confirmed by the fact that the Register is being used mainly to obtain those who are prepared to give full-time service. I interpret this to mean that the authorities require the services of accountants rather than of accountancy, and the distinction is not unimportant. Many practitioners who are over the age for military service possess exceptional qualifications or specialised knowledge of particular aspects of industry, but, with obligations to clients and the loss of junior members of the staff, they feel not unnaturally that they will be serving their country more effectively by maintaining their practices than by accepting full-time positions in Government service. They would, however, gladly undertake part-time work, and if their services could be so used, not only would the public service obtain the benefit of their accumulated and specialised

experience, but industrial concerns would gain by having independent and unbiased intermediaries against the insidious, howbeit benevolently intentioned, encroachments of bureaucracy, which frequently and almost inevitably lacks practical experience of the issues involved. It is because the danger implicit in this state of affairs is widely recognised that I see no reason to fear the relegation of accountancy to a back seat by reason of the operation of the National Register or the extension of the range of activities of the Civil Service.

In writing the foregoing I do not wish to imply any desire or intention on the part of Government Departments to limit the sphere of the profession's legitimate activity, and I do not by any means rule out the possibility of considerable work for the profession arising out of Government trading and other activities. Although the State has been compelled to assume control of both supply and demand of many commodities, the personal factor has not been thereby eliminated because trade still functions through existing channels and fresh machinery must therefore be provided for the distribution equitably of the proceeds of pool and control operations. This will demand accounting on a uniform basis and it has already created demands for our advice and services. Moreover, the operations of pools and control organisations will themselves need investigation and audit on lines similar to those followed for ordinary commercial undertakings, and the possibility of employment of accountants in their professional capacity for these purposes can hardly be doubted.

So far I have dealt with matters which arise in the normal course of professional practice, but accountants must be ready to place their services at the disposal of the authorities in directions for which their training and experience particularly fit them. In view of the large number of special provisions which have recently been enacted and the many more which will probably become necessary, I can only indicate generally the avenues of service which they may open up. Proposals to regulate prices of goods require central and local committees and panels of assessors to be set up, and upon these

accountants will be needed. Committees for the scrutiny and supervision of national and local expenditure will also be necessary if public money is to be intelligently and, as far as may be, economically expended, and the presence of accountants on such committees will be not only desirable but essential.

No article on accountancy in war time would be complete without reference to those members of the profession who in peace time volunteered for national service in such an emergency as has now arisen. For those whose obligation is for part-time service in civil defence, the problem is the minor one of physical endurance, but for those called up for full-time service, and who have no partner who can continue their practices, the problem is a serious one. An attempt has been made in one district to prescribe conditions under which the practice of an absentee practitioner can be carried on by colleagues for his benefit; in some districts practitioners have made similar arrangements between themselves on a basis of mutual confidence. It is too early yet to be able to ascertain the working and value of such arrangements, but the fact that they have been made proves the confidence that can be derived from professional association.

To the accountant who has articulated clerks, as well as to the professional organisation to which he belongs, the war brings special problems. The interruption of the training of articulated clerks is none the less regrettable because it is inevitable, and that from the point of view, not only of the parties immediately concerned, but of the profession as well. There is a natural desire to assist articulated clerks to qualify by making some allowance for time spent on national service and by making concessions in regard to examinations, but there remains on the principal and on the organisation the responsibility for seeing that the clerks' practical and theoretical training has been adequate and that professional standards are maintained. In matters such as these where the claims of sentiment are strong, it may be as well to remember that when, as here, there is a conflict between the interests of the individual and of the profession, in the long view the latter are the more important.

## War Compensation

By ERNEST E. EDWARDS, M.A., LL.B., Barrister-at-Law, and BERTRAM NELSON, Incorporated Accountant.

The legislation of emergency is notable rather for the multiplicity of the powers it confers on the Executive than for the generosity of its treatment of those who suffer from the exercise of these powers. The statutory provisions for war compensation are therefore still far from complete, but it is now possible to survey the preliminary steps which have been taken to carry into effect the principle that "neither the public safety nor the defence of the realm requires

that the Crown should be relieved of a legal liability to pay for property it takes from one of its subjects" (per Lord Atkinson in *Attorney-General v. De Keyser's Royal Hotel* (1920, A.C. 508, p. 542).

The general principles of compensation have been codified in the Compensation (Defence) Act, 1939, but supplementary provisions are to be found in a great variety of Statutes and Orders. For convenience, these will be considered under the several

heads of Land and Buildings, Vehicles, Ships, Aircraft and Goods. Finally, some general provisions will be briefly mentioned.

### Land and Buildings

Where possession is taken of property on or after August 24, 1939, Sections 2 and 3 of the Compensation (Defence) Act, 1939, provide that compensation shall be payable in respect of:—

- (a) The rent which a tenant might reasonably be expected to pay, on a pre-war basis.
- (b) The cost of making good damage, excluding wear and tear or war damage.
- (c) In respect of agricultural land, the usual tenant's *ingoings*.
- (d) Reasonable expenses, and
- (e) "The doing of work on land."

The Crown is to be deemed to be the tenant occupier for Schedule "A" purposes and it is to be presumed that the same principle will apply as regards local rates.

The method of assessing compensation under claims (a) and (b) above is at present the subject of detailed negotiation with the Treasury, but it has been stated by the Financial Secretary to the Treasury that, in assessing the notional rent, profits derivable from the conduct of the premises may, *inter alia*, be taken into account. With regard to furniture and equipment taken over, unless an arrangement for hire is made, compensation is paid on the basis of the price which the owner might reasonably have expected to obtain upon sale of the goods before requisition. The proprietor of premises such as an hotel is entitled to be reimbursed any expenses reasonably incurred for the purpose of compliance with directions given in connection with the taking possession of the hotel. If such directions necessitate the termination of contracts of service, the Minister is prepared to regard the amount of wages properly payable by the proprietor in lieu of notice, in appropriate cases, as expenses reasonably incurred within the meaning of the Act.

As regards "work done on land," the compensation is calculable on the consequential diminution of annual value but, at the option of the Crown, the land can be restored to its former value. The Act does not clearly state when this period of compensation is to begin or to end. Periodic compensation ought in equity to continue indefinitely until restoration or until the payment of a lump sum, and although this is presumably the Legislature's intention, it is not so stated in the Act.

Property requisitioned for billeting is dealt with under the Defence Regulations, 1939, Section 22, and the Army Act; the amounts payable as compensation are set out in Statutory Rules and Orders, 1939, Nos. 931 (Army), 990 (Air Force) and 949 (Air Force Reserve). Payments are being made weekly, usually automatically. Civil Billeting is dealt with under Rules 986 and 987, payment being made on Billet-

ing Requisitions (through local Post Offices) or through local Billeting Officers in the case of empty premises.

Exchequer grants in respect of the provision of approved air-raid shelters for factories, mines and commercial buildings (at a rate not exceeding 35 per cent. of the capital expenditure incurred) are made on completion of forms obtainable from local A.R.P. offices. But these grants are not available in the case of hotels, theatres, hospitals or schools.

### Vehicles, Ships and Aircraft

Claims may be made in respect of hire (on a pre-war basis), reasonable expenses and damage (other than war damage), the detailed provisions being set out in Sections 4 and 5 of the Compensation (Defence) Act. The rate of compensation payable for requisitioned garages is set out in the Billeting Orders referred to above (under Land and Buildings). Interim payments for vehicles taken by local authorities have already been authorised. As a result of further consultation with the Minister of Transport, the Home Secretary will issue further advice to local authorities soon on the final rates which may be offered.

### Goods

The compensation payable in respect of requisitioned goods is normally the price which the owner might reasonably have been expected to receive on a pre-war basis (Compensation (Defence) Act, 1939, Section 6 and the Defence Regulations, Part IV). Negotiations are proceeding with a view to determining the values of stocks acquired by the Government, the suggested basis in some cases being the average of prices ruling over the seven days immediately preceding the war. Where, through the requisitioning of goods, businesses have been carried on at a loss (*e.g.*, through the payment of wages), there is no specific provision for compensation, but it is understood that in some cases allowances are being made under Section 6 (3) of the Compensation (Defence) Act. Compensation for hire-purchase goods is to be apportioned between the hirer and the owner, under Section 13.

### General Provisions

Claims Forms (as set out in the Compensation (Defence) Notice of Claims Rules (1 and 2) 1939) are obtainable from the appropriate Government Department or law stationers: they must be lodged within six months or such longer period as the Treasury may direct. Compensation is normally payable quarterly in respect of land and monthly in respect of vehicles, ships and aircraft. Interest at 4 per cent. per annum is payable on overdue compensation (Order 1297) and in some cases provisional payments of two-thirds of approved claims are now being made, leaving the remaining one-third to be dealt with by the tribunals mentioned below. When any property is mortgaged, the mortgagee's rights extend to the compensation payment.



Disputes as to compensation may be referred to a General Claims Tribunal or a Shipping Claims Tribunal (which is composed of two lawyers and either an average adjuster or an accountant). Except that on a point of law the Tribunals may be asked to state a special case for the opinion of the High Court, their decisions are final.

In some cases, it may be difficult to decide whether compensation should be claimed under the Compensation (Defence) Act or under some earlier Act, such as the Acquisition of Land (Assessment of Compensation) Act, 1919. If there is any doubt as to which Act applies, claims should be made under both.

Finally, it may be noted that no specific provision

is made for the following types of losses :—

- (a) Diminution of goodwill.
- (b) Reinstatement expenses.
- (c) Remuneration of proprietors.
- (d) Loss of office and wages paid in lieu of notice.
- (e) Expenses incurred in obtaining alternative premises.
- (f) A.R.P. expenditure of landlords not recovered from tenants.

If serious injustice and wrong are to be avoided, it is to be hoped that the compensation provisions will be discreetly interpreted in these respects and that payments will be made with all possible promptitude.

## Property and the War

By W. J. SHIELD, Solicitor

In this article it is intended to deal with the following war-time aspects of property :—

- (A) The position of tenants *vis-a-vis* their landlords in cases where rent is not being duly paid.
- (B) The Rent and Mortgage Interest (Restrictions) Acts.
- (C) The acquisition of property by Government and other authorities ; and
- (D) The Landlord and Tenant (War Damage) Act, 1939.

(A) *Failure to Pay Rent*.—Tenants who cannot or will not pay their rent cannot be evicted or have their chattels distrained upon without the permission of the Court. The landlord may (a) sue for possession with or without a claim for the arrears of rent ; or (b) apply to the Court for leave to distrain. In the former case the tenancy must have been determined.

The Courts seldom make an order for unconditional possession or give immediate leave to distrain and usually make either an order for possession which is not to be enforced whilst the tenant pays current rent and a small sum on account of arrears (sometimes only current rent) or give leave to distrain on similar terms. In cases of poverty or hardship—especially in the case of soldiers, sailors and airmen—it is not unusual for the Court to adjourn the hearing, the tenant being told he must pay the current rent and perhaps a small weekly or monthly sum in addition.

In the case of actions for possession, although orders for possession—suspensory in character—are made in most cases, the landlords must, if failure to pay occurs, apply to the Court again for leave to issue warrants of possession before the orders can be executed and on such applications the tenant is usually given another chance.

The Courts carefully guard the interests of tenants, especially those who are serving their country, but in

many cases of tenants who can pay, a suspensory order for possession is made, but with leave to issue the warrant of possession.

(B) *Rent and Mortgage Restrictions*.—The Rent Acts affect about 98 per cent. of the houses in England and Scotland, for they apply to every dwellinghouse (including those which are used partly as a shop or for business or professional purposes) of which the rateable value did not exceed (a) in London, £100 on April 6, 1939 ; (b) in Scotland, £90 ; and (c) elsewhere, £75 on April 1, 1939.

These Acts protect tenants against eviction (except for prescribed reasons) and against undue increases of rent, and protect owners against the calling in or enforcement of mortgages and increases of interest.

This protection can be conveniently divided into two classes, namely (a) the protection afforded by the 1920 Act as amended ; and (b) by the 1939 Act ; these two classes being referred to below as " the 1920 Act houses," and " the 1939 Act houses " respectively.

The 1939 Act brought under protection all houses within the rateable values above mentioned which either (a) had never been controlled because they had been built after April 2, 1919 ; or (b) had become decontrolled under the decontrolling provisions of the 1923 Act, and been registered as decontrolled.

The 1920 Act protected and continues to protect all dwellinghouses of which the rateable value did not exceed (a) in London, £35 on April 6, 1931 ; and (b) elsewhere, £20 on April 1, 1931, except those which had become decontrolled and registered, or had never been controlled.

The owners of " 1920 Act houses " cannot enforce payment of increases of rent above (a) 40 per cent. (less in some cases) of the " net " rent which is normally the rent of August 3, 1914 (called the " standard rent ") less the 1914 rates (if payable by them) ; (b) 8 per cent. of the cost of necessary

improvements and structural alterations ; and (c) any increase of the rates above the rates of 1914 (if payable by them).

The mortgagees of "1920 Act houses" cannot under normal circumstances call in their money or enforce their securities or increase the interest reserved beyond 1 per cent. with a limit of  $6\frac{1}{2}$  per cent., except in respect of mortgages created after July 2, 1920, which, however, are now controlled by the 1939 Act.

The owners of "1939 Act houses" cannot enforce payment of increases of rent above the "standard rent," which is normally the rent of September 1, 1939, except by (a) 8 per cent. of the cost of necessary improvements and structural alterations ; and (b) any increase of rates over those of 1939 (if payable by them).

The mortgagees of "1939 Act houses" cannot under normal circumstances call in their money or enforce their securities or increase the rate of interest above the rate payable on September 1, 1939, or, in the case of mortgages created after that date, the rate made payable by the mortgage deed. Mortgages created after April 2, 1919, and houses erected after the passing of the 1920 Act were not controlled by that Act, but *future* mortgages and houses built after the passing of the 1939 Act are controlled by the 1939 Act.

In regard to industrial and commercial properties (as well as property within the Rent Acts) protection is afforded by the Courts (Emergency Powers) Act, 1939, and the Possession of Mortgaged Land (Emergency Provisions) Act, 1939. The first of these Acts prevents a landlord from distraining without the leave of the Court whatever the rateable value or rental of a property, and is not confined to residential property.

There is now no provision for the decontrol of houses.

All increases of rent or mortgage interest above the "permitted" increases are recoverable by the tenants or mortgagors within two years of the date of payment, but not afterwards.

It should, however, be pointed out that the provisions as to mortgages (except in regard to the interest payable in respect of mortgages affecting "1939 Act houses" which is stabilized at the rate payable on September 1, 1939, or the rate made

payable in respect of mortgages created thereafter) do not apply to (a) mortgages (e.g., building society mortgages) which are repayable by instalments extending over a term of 10 years or more ; (b) mortgages where the mortgagee was already in possession on March 25, 1920 (in respect of "1920 Act houses") or September 1, 1939 (in respect of "1939 Act houses").

(C) *The Acquisition of Property by the Government and Other Authorities.*—This subject is dealt with by Regulation No. 51 of the Defence Regulations, 1939, made under the Emergency Powers (Defence) Act, 1939, which provides that a "competent authority" if it appears to that authority to be necessary or expedient so to do in the interests of public safety, the defence of the realm or the efficient prosecution of the war, or for maintaining supplies and services essential to the life of the community, may take possession of any land and use it for such purposes and in such manner as the "competent authority" thinks expedient.

As the definition of "land" includes "parts of houses or buildings," the Government may take possession not only of open land, but dwellinghouses, offices, hotels and other buildings.

(D) *War Damage.*—The Landlord and Tenant (War Damage) Act, 1939, provides that a tenant's obligation to repair is not to be construed as extended to include war damage.

The Act also provides that in leases and mortgages containing an obligation on the tenant or mortgagor to repair there are to be implied, covenants by the tenant or mortgagor in the event of war damage (a) as soon as practicable to give notice thereof to the landlord ; and (b) to permit the landlord to enter the premises to investigate.

It also provides that where land comprised in a lease is unfit by reason of war damage the tenant may either (a) disclaim the lease ; or (b) give notice of intention to retain the property on the terms specified in the Act.

If the tenant has not served a notice, the landlord may serve notice on the tenant requiring him to elect whether he will disclaim or retain, and if the tenant should not "elect" he shall be deemed to "retain." The landlord may, where the tenant has served notice of disclaimer, serve a "notice to avoid disclaimer."

## "Residence" under the Finance Regulations

(CONTRIBUTED)

The Finance Regulations, recently issued as part of the spate of emergency orders, raise once again the important question of residence.

Subject to an important proviso, these regulations prohibit dealings in certain classes of foreign securities, namely, securities expressed in the currencies of a list of countries laid down by the Treasury, unless official permission is obtained ; they require owners of such securities to make a return of them to the Bank of England ; and they provide that, unless

official exemption is granted, persons owning gold or foreign exchange shall sell it to the Treasury. By the terms of the proviso, however, persons who are not resident in the United Kingdom are excluded from the regulations—unless such persons are interested merely as trustees or by virtue of any mortgage, pledge or charge, created before August 26, 1939, in the case of securities, and before September 3, 1939, in the case of gold and foreign exchange.

Thus the question of residence is of paramount importance, though it should be carefully observed that the time factor is a relevant consideration in its determination.

Now what is the meaning of "residence"? It is reasonable to assume that for the purpose of the above orders the term would be construed in the same way as for income tax purposes.

For tax purposes it has been held that the term has no technical or special meaning. Moreover, the question is one purely of fact; it is not one of mixed fact and law, and the question of law can only enter if it is necessary to determine whether there was any evidence before a tribunal to support a particular finding.

Perhaps the decisions of the greatest importance on the meaning of residence are those reached by the House of Lords in *Levene's* case (1928, A.C. 217) and *Lysaght's* case (1928, A.C. 234), and some principles in addition to those already referred to may with advantage be deduced from these cases. It may be convenient to set forth these principles as separate propositions.

1. The word "resident" indicates a quality of the person charged, and is not descriptive of his property, real or personal.

2. Property obviously is no conclusive test.

3. Though setting up an establishment in this country available for residence at any time throughout the year of charge, even if it is used but little, may be good ground for finding its master to be "resident" here, it does not follow that keeping up an establishment abroad and none here is incompatible with being "resident" here if there is other sufficient evidence of it.

4. A man is taxed where he resides, but one might almost say he resides wherever he can be taxed.

5. The element of choice in the selection of the place of residence is not of any material importance.

6. Though the taxpayer's chargeability in each year of charge constitutes a separate issue, yet no error is committed if the facts applicable to the whole of the time are found in one continuous story. Thus light may be thrown on the purpose for which the first departure from the United Kingdom took place, by looking at what happened in succeeding years.

7. A man's residence may be regarded as his settled or usual abode. In most cases there is no difficulty in determining where a man has his usual or settled abode, and if that abode is ascertained he is not the less resident there because from time to time he leaves it for the purpose of business or pleasure. Similarly a person who has his home abroad and visits this country from time to time for temporary purposes without setting up an establishment in this country is not considered to be resident here. (Though if he is the owner of foreign possessions or securities within Case IV or Case V of Schedule D, then, if

he has actually been in the United Kingdom for a period of six months all told in any year of assessment, he may be charged with tax under Rule 2 of the Miscellaneous Rules of Schedule D.)

8. A man may reside in more than one place. Just as a man may have two homes—one in town and the other in the country—so he may have a home abroad and a home in the United Kingdom, and in that case he would be resident and chargeable to tax in both places.

So much for general principles. Some of the factors which have been taken into consideration by the Courts in determining questions of residence may be briefly reviewed.

In *Levene's* case regard was had to nationality, past and present habits of life, ties with this country and with countries abroad. The fact that a lease had been taken abroad by the appellant was apparently an important factor in regarding him as having become resident abroad for the period, which was not in question in the appeal.

In *Cooper v. Cadwalader* (5 T.C. 101), the keeping of an establishment in this country, which was available at any time during the year for occupation by the owner, was held to constitute residence here. In *Reid's* case (10 T.C. 673), the storing of furniture and the keeping of a banking account in this country were factors taken into account in determining that there was residence here. It is important to note, however, that in this case, although the appellant gave up her house, she spent from three to four months in this country every year. On the other hand, in *Lysaght's* case, the keeping of a banking account here and membership of a London club were held by Lord Cave to be trivial circumstances which might be ignored. Moreover, in *Withers v. Wynyard* (28 R. & I.T. 279), the keeping of a small banking account and of a flat in the United Kingdom, the lease of which, however, was desired to be disposed of, did not prevent the Court from holding that there was no residence here. Reference also may be made on these points to *Brown's* case (1926, 11 T.C. 292), where the storage of furniture and the keeping of a banking account here did not prevent the appellant from being resident outside of the United Kingdom, and that, too, notwithstanding that the appellant made visits to the United Kingdom, after giving up his home here, for periods of three to four months in each year.

As regards obligations and ties whether in this country or abroad, in *Roger's* case (1 T.C. 255), a mariner, whose wife and family lived here, was held to be resident here, though he himself was absent from this country for the whole of the year (and see *Thompson v. Benstead* (1918, 7 T.C. 137)). On the other hand, in *Lysaght's* case, the fact that the family home was in Ireland did not prevent the appellant from becoming resident here, by reason of the business visits he made to this country.



# ACCOUNTANCY

*Formerly the Incorporated Accountants' Journal*  
Established 1889

*The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 0d., postage extra.*

*All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2*

## TAX, LOAN OR LEVY?

Traditionally, there are two main lines of approach open to a Chancellor in search of money. Either he may tax more heavily or he may borrow. The professional accountant, in whose make-up financial austerity is the categorical imperative, feels almost instinctively that the first of these two methods should be a main element in war-time finance. And for this preference there are sound economic reasons. Revenue raised by taxation affects the distribution of income among different classes in a manner that can easily be assessed, more especially if the taxes are imposed direct on incomes. It has no effects upon the price level that cannot be fairly accurately anticipated. It cannot produce inflation. But despite these advantages of taxation, it is conspicuously true that at a certain point taxes on industry and trade depress business enterprise; the motive power behind the economic machine begins to lose in strength. Obviously this point must not be passed.

Is it now possible to tax still further in this country without stepping beyond the danger point? Clearly it is not possible if we are restricted to the usual forms of taxation. If we tax further, new taxes need to be devised. Two possibilities, novel so far as the United Kingdom is concerned, have been suggested in the last few months. In a lecture recently given to an audience of accountants and bankers by Mr. Hargreaves Parkinson, summarised in this issue of *ACCOUNTANCY*, these suggestions were discussed. The first tax is novel only in the manner of its collection—it consists of an extension of the income tax to lower incomes, payment to be made by means of stamped cards, as in the national insurance scheme. The second is the turnover tax, of long standing in some countries, but unfamiliar to the British public. This tax would admittedly have a dampening effect upon public spending. But if productive power is to be sufficiently diverted to war ends, the ordinary consumption of the citizen must necessarily be curtailed. The general advantages of the taxation method would imply that these new forms of tax deserve the fullest consideration of the Chancellor and his advisers. It would not be justifiable to renounce further taxation unless weighty reasons, which do not appear to be forthcoming, are deduced to show in what manner these two suggested taxes, or possible variants of them, are undesirable.

But no one suggests that the fullest conceivable use of taxation, within the limits set by the necessity to sustain business enterprise, can suffice to pay more than about two-thirds of our war bill. What,

then, of the traditional alternative of borrowing? It should be plain that if the public voluntarily save, out of their pre-existing incomes, a certain additional part, and lend it to the Government, they are sacrificing consumption as effectively as if they are taxed. Except for two facts, firstly that the Government must pay interest and repay capital, and secondly, that the distribution of incomes is differently affected, the broad economic consequences are the same. Given high and increasing taxation, therefore, loans are an essential complementary part of the war-finance. What the given level of taxes may still fail to do, loans may succeed in doing. Up to a point, the country's resources may by both methods be turned more and more towards producing for the war.

Up to a point. The instinctive feeling that there is something insidious about borrowing is not without due cause. All the time loans are made out of the pre-existing resources of the public and businesses, there is no real danger. But once the rate of interest necessary to call forth such savings becomes prohibitive or no more savings can be produced at any rate of interest, persistence in the method of borrowing necessarily means inflation. The only way further loans can be taken up at such a stage is by the production of new bank money. This is the insidious feature. Inflation must at all costs be avoided, and borrowing must stop when inflation is imminent.

The realisation that beyond a certain level the two methods of tax and loan both present grievous difficulties has led to speculation as to other possible methods of raising revenue. The main contribution to this departure from the traditional confines of our system of public finance has recently been made by Mr. J. M. Keynes in three notable articles in *The Times*. Mr. Keynes suggests a new method—the compulsory levy on incomes. His proposal is that the State should obtain the required disposition over the nation's resources, not only by taxation and borrowing, but also by assessing individuals for annual sums which would be used by the Exchequer and placed to the individuals' savings accounts for the duration of the war—in other words, by obligatory savings. The details of this plan cannot be considered in a limited space, nor is it necessary at this stage to discuss such matters as the actual schedule determining the contributions at given income levels and the controls over the release of the savings at the end of the war. On the broad issue, it should be stressed that while taxation deprives the individual of some of the consumption he would otherwise have enjoyed—in effect, it confiscates a part of his income—inflation, which after a certain point has been reached is the inevitable concomitant of borrowing, also confiscates a part of his income. Compared with this confiscation, the postponement of consumption entailed by Mr. Keynes's obligatory loans is a preferable alternative. We shall sooner or later be given a situation where a greater reduction in consumption by the public is essential, a reduction beyond what can be effected by tax or loan without deleterious effects—either the stultifying of business enterprise or inflationary price rises. Some variant of the Keynesian plan, it would seem, would then become the least objectionable of the several methods of finance, however it may be regarded at the present stage.

TAXATION

Expenditure on A.R.P.

Every business is faced with the problem of the extent to which expenditure on air-raid precautions can be allowed as a deduction from profits for income-tax purposes. The introduction of the excess profits tax will not make the question any easier to solve, since the treatment of such expenditure for income-tax purposes will determine its position for excess profits tax, and in view of the high rate of excess profits tax, concessional treatment cannot be anticipated.\*

For Schedule D purposes there is no special legislation to assist, except in the case of shelters, etc., attached to a factory as mentioned in connection with Schedule A below. It is therefore necessary to revert to Rule 3 of the Rules of Cases I and II. Turning the negative provisions of Rule 3 into the positive, we find that a deduction is allowed under sub-rule (a) in respect of any disbursements or expenses wholly and exclusively laid out or expended for the purposes of the trade, profession, etc., and under sub-rule (d) for any sum expended for repairs of premises occupied, or for the supply, repairs or alterations of any implements, utensils or articles employed for the purposes of the trade, etc.

Whether or not any expenditure falls within these sub-rules is a question of fact, and in the event of dispute must be decided by the Appeal Commissioners. So long as the expenditure is not in the nature of capital outlay, it will be found that there is no difficulty in having it allowed as a deduction. In the view of the Board of Inland Revenue, expenditure on the following items is deductible:—

- Civilian duty and service respirators.
- Protective clothing for staff engaged in air-raid precautionary duties.
- The training of employees in such duties.
- Covering of glass with wire netting.
- Dark blinds, screens and paint to render windows opaque.
- Equipment and stores for first-aid parties.
- Equipment of decontamination squads.
- Such items as steel shutters for protection of windows, or timber frames and screens to provide air locks at doors or windows, which represent fixtures or fittings required only for emergency.

In respect of equipment in the nature of plant and machinery, such as fire appliances and air filtration plant, a wear and tear allowance should be claimed. Such expenditure cannot be allowed as a deduction from profits as it is capital outlay. Similarly, no deduction can be allowed for the physical alteration of, or additions to, the structure of the trading premises, except as mentioned below.

For excess profits tax purposes, however, a claim

\*The separate question of grants towards the capital cost of air raid shelters is dealt with in a Professional Note on pages 51/52 of this issue.

should be made under Rule 3 of Part I of the Seventh Schedule to the Finance (No. 2) Act, 1939, for additional relief on buildings, plant and machinery provided for A.R.P. in so far as, on the termination of the war, these will cease to be required for the purpose of the trade or business, and their value will then be less than their cost as reduced by Government grants. The deficiency will be wholly or mainly ascribable to conditions prevailing as a consequence of the war. Interim allowances should therefore be claimed under the provisions of the Rule.

In the case of Schedule A there is a statutory provision, in Section 17, Finance Act, 1938, whereby, in estimating the annual value of any building, no regard is to be had to any room or other part of the building added solely for the purpose of A.R.P. and not occupied or used for any other purpose, or to any structural alterations or improvements made solely for A.R.P. If, however, the building or any part of it is let and the rent or other consideration for the lease is greater than it would have been if the room, etc., had not been provided or the structural alterations or improvements had not been made, the relief will not apply. Moreover, if the room, etc., is used for any other purpose, the annual value will be assessed so as to include its value.

Any separate unit of assessment intended to be occupied and used solely for the purpose of A.R.P. and not occupied or used for any other purpose is exempted from Schedule A, unless it is let.

The omission of rooms, etc., from the Schedule A valuation does not prejudice the allowance for depreciation of a mill, factory or similar premises under Section 15 (2) of the Finance Act, 1937, and in such a case the depreciation allowance is to be increased by the amount of the repairs allowance appropriate to the annual value of the room, etc., provided for A.R.P., as if it had been separately assessed.

Illustration

Factory owned and occupied for the purposes of the trade, outside London. Net annual values—Schedule A, £400; rating, £410. An A.R.P. shelter was added, having a notional annual value (gross) of £50.

Depreciation allowance (repairs allowance Schedule A £84, therefore allowance restricted to one-fifth of rating net annual value) ... ..	£82
Add Repairs allowance on A.R.P. shelter as if separately assessed ... ..	10
Total allowance ... ..	£92

NOTE.—For E.P.T. purposes, as already mentioned, an additional allowance may be obtainable.

It should not be overlooked that for the purposes of a maintenance claim under Rule 8 of No. V,

Schedule A, A.R.P. expenditure should be included as an expense in so far as it is in the nature of maintenance or repairs. Expenditure of a capital nature cannot, of course, be included.

Many estate owners are paying the whole or part of the normal salaries of employees who are serving with His Majesty's Forces. Where their peace-time salaries were admissible expenses in the maintenance claim, the war-time payments should also be included, in the same way as pensions. (Similarly, allowances to employees of a trade or business who are serving in the Forces should be claimed as deductions under Schedule D.)

Grants under the Civil Defence Act, 1939, towards the cost of provision of A.R.P. shelters (equal to the standard rate of tax on the agreed expenditure) are not assessable to tax, being grants in aid of capital expenditure. They will, however, reduce the amount which can be claimed for E.P.T. purposes for excess depreciation.

## TAXATION NOTES

**Artificial Transactions.** For N.D.C. purposes, Rule 10 of the Fourth Schedule, Finance Act, 1937, provides that "no deduction shall be made in respect of any transaction or operation of any nature if and so far as it appears that the transaction or operation has artificially reduced the profits or created or increased a loss or would artificially reduce the profits or create or increase a loss." For E.P.T. purposes, Rule 9 of Part 1 of the Seventh Schedule, Finance (No. 2) Act, 1939, provides that "no deduction shall be made in respect of any transaction or operation of any nature if and so far as it appears that the transaction or operation has artificially reduced or would artificially reduce the profits." The only other instance of similar legislation in connection with taxation is in Section 21 (1) of the Finance Act, 1922 (as amended by Section 31 of the Finance Act, 1927), which provides that "any sum expended or applied, or intended to be expended or applied, in pursuance of or in consequence of any fictitious or artificial transaction," is to be regarded as income available for distribution among the members of the company, and not as having been applied or being applicable to the current requirements of the company's business or its maintenance and development.

The intention of these provisions is clear, but there is little guidance as to their application. It appears that, in general, it depends upon the point of view taken by the Commissioners on appeal whether any transaction comes under the prohibition.

In *The Scottish Adhesives Co. v. C.I.R.* (1 Annotated Tax Cases 42), the Court refused to interfere with the decision of the Commissioners that an arrangement by the proprietor of a business to pay to two former partners fifty per cent. of the profits as remuneration, although they were practising accountants only engaged in clerical and accounting parts of the busi-

ness, was an artificial transaction for excess profits duty purposes (cf. *Johnson Bros. & Co. v. C.I.R.*, 12 Tax Cases 147). In *Young & Co. v. C.I.R.* (12 Tax Cases 827), a transaction for which there were valid business reasons involving the arrangement of fresh forward contracts in substitution for existing forward contracts, so as to charge in the current period the loss arising owing to a fall in prices, was held to be artificial for E.P.D. purposes; apparently on the grounds that the transaction made no substantial change in the relations of purchaser and seller, debtor and creditor, subsisting between the parties, and was an artificial change of the actual position from the point of view of determining the profits.

It is clear that the fact that the avoidance of tax is an element in a transaction does not in itself render it simulate (see *Ayrshire Pullman Services and D. M. Ritchie v. C.I.R.*, 14 Tax Cases 754). It appears, however, that a transaction may be artificial even if its legal "form" is unimpeachable. Of one thing we can be sure, namely, that any attempts to avoid taxation which escape the "artificial transaction" clauses will meet with prompt legislation to stop the loopholes.

**Date of Commencement.** Not a little importance attaches to the date on which a business is deemed to commence, particularly as it will now decide the basis of computation of standard profits for E.P.T. Basically a question of fact, the date of commencement is the date on which trading or its equivalent actually begins.

In *Birmingham & District Cattle By-Products Co. v. C.I.R.* (12 Tax Cases 92), the first three months of the company's existence were devoted to erection of works, installation of plant and entering into agreements relating to the purchase of products to be used in the business and to the sale of finished products, and it was held that the business did not commence until the date on which the installation was completed and the company commenced to receive raw materials for the purpose of manufacture into finished products. "Preparing to commence business is not commencing business."

In the case of a retailer, the question is: "When did he begin to keep open shop?" Where a business has been carried on abroad, and control is transferred to this country, for example, by the person carrying it on becoming resident here, it cannot be treated as set up and commenced when it is first brought within the scope of Case 1 of Schedule D; it must be assessed on the basis of past profits, although at the time they were made it was not chargeable to British tax (*Fry v. Burma Corporation*, 15 Tax Cases 113).

On a change of ownership of a business, except in partial partnership cases (and even then, if so claimed), the business is, for income tax purposes, regarded as discontinued and recommenced. The date of change is a question of the date of *de facto* succession (*Todd*



*v. Jones*, 15 Tax Cases 396). Normally, the date of the vending agreement fixes the date of change, but evidence may be forthcoming that the agreement is merely a formal ratification of what has, in fact, been done at an earlier date, although a purchase cannot be dated back for tax purposes. Proper evidence is essential to prove an alleged transfer; change of name is not sufficient by itself (*Barry v. C.I.R.*, 18 Tax Cases 193).

## Recent Tax Cases

*Income Tax, Schedule D—Retirement from business—Sale of assets, mostly whisky stock to one purchaser—Whether a trading transaction.—S. 31 of F.A. 1926.*

*C.I.R. v. Nelson* (Court of Session, July 13, 1939, Tax Leaflet 1031) is yet another of the whisky stock cases. Respondent was a whisky broker, purchasing and storing whisky in bond for eventual re-sale. Of total assets, £27,461, all but £42 represented whisky. On July 15, 1937, he closed his banking account and gave a mandate to his accountant to wind up his business. The following day creditors and customers were notified through the Press and by circular. On July 27 a customer bought respondent's whisky, casks, trade name, office furniture and fittings for £130,000, and the issue was whether this sum was a trade receipt. The Special Commissioners held that it was not. The business had ceased upon July 15, 1937. The purchaser did not want the business but only the stock. The Court, dismissing the Crown's appeal, held that it was a question of fact upon which the Commissioners had sufficient evidence.

The loss to which the Revenue was exposed in this class of case was dealt with by Section 26 of the Finance Act, 1938. In the present one, the facts were very different from those in *J. & R. O'Kane and Co. v. C.I.R.* ((1919-22), 12 T.C. 303) and *Hillerns and Fowler v. Murray* ((1932), 47 T.L.R. 553, and 48 T.L.R. 213, 17 T.C. 77), but counsel for the Crown tried to circumvent the finding of fact by two arguments. The Special Commissioners had said that the respondent "had put himself out of business in the whisky trade by the sale of the whole of his stocks." The date of the sale was, therefore, the date of "permanent discontinuance" within Section 31, and the Commissioners had misdirected themselves in finding for July 15. The other argument was that every such transaction must by reason of its nature be a sale in the course of trade. The Court would have neither of these contentions, the Lord President pointing out the novelty of the second argument which, if well-founded, would have been a simple and brief ground for decisions arrived at by a less direct route.

**Relief for Diminution of Earned Income in 1939-40.** It does not appear to be generally realised that this relief (explained in our November issue) is to be given from the second instalment of tax due on July 1, 1940. The first instalment due on January 1, 1940, will not be affected, and is payable in full. Cases of hardship are bound to arise, and no doubt will be treated sympathetically, but the legal position is clear.

*Sur-tax—Dividend paid not "free of tax" but "without deduction of income tax"—Whether to be "grossed" under the Finance Act, 1931, Section 7 (2).*

In *C.I.R. v. Cull* (K.B.D., June 16, 1937, Tax Leaflet 921, Court of Appeal, January 31, 1938, Tax Leaflet 951, House of Lords, July 27, 1939, Tax Leaflet 1034), the House of Lords unanimously reversed the judgments of the lower Courts and restored the finding of the Special Commissioners that when a dividend is paid "without deduction of tax" the sum received by a shareholder has not to be "grossed" for sur-tax purposes under Section 7 (2) of the Finance Act, 1931. They held that the matter was governed by their own decision in *Neumann v. C.I.R.* ((1934), A.C. 215, 18 T.C. 332), and disapproved *C.I.R. v. Pearson and C.I.R. v. Pratt* ((1936), 2 K.B. 533, 20 T.C. 433).

*Cull & Co.*, bankers and financiers, are an unlimited company having a share capital of £800,000 divided into 700,000 preference and 100,000 ordinary shares of £1. On March 13, 1934, the directors resolved "that the dividends on the 5 per cent. cumulative preference shares for the four years to March 31, 1934, be paid on March 31, 1934, and that an interim dividend for the year to March 31, 1934, on the ordinary shares of twenty-one shillings per share be paid on March 31, 1934, without deduction of income tax." For the year 1933-34, owing to previous losses, there was no assessment under Case I of Schedule D upon the company. The appellant was the holder of 20,000 ordinary shares and in making his return of total income for sur-tax purposes included the sum of £21,000, being the actual sum received. The assessing Commissioners claimed to "gross" this figure. On appeal it was decided that the dividend was not "tax free" and that as nothing had been deducted nothing should be added.

To understand this case, reference must be made briefly to the history of the subject. The Act of 1842 contemplated that the tax paid by companies, etc., would be passed on to the shareholders and, by Section 54, the latter "shall allow out of such dividends a *proportionate* deduction in respect of the duty so charged." With subsequent developments

of the company system, and assessment on a basis other than that of the actual income of the year of assessment, the idea underlying Section 54 had long been recognised as impracticable. Rule 20 in the General Rules of the Income Tax Act, 1918, made legal what was the existing practice, but undoubtedly changed the law, although this fact was challenged without success in the *Hamilton* case (1931, 2 K.B. 495, 16 T.C. 213). In *Neumann*, a dividend without deduction of tax had been received, paid out of a fund which represented a company's surplus of net rents over assessments under Schedule A. In all the judgments in the Lords it was expressly stated that this fact did not mean that the fund in question was not "profits or gains to be charged" on the company under Rule 20. It was not an untaxed fund. They held that the company had the right to deduct tax from payments out of the fund of excess rents, but, although authorised, was not *required* to do so, and had not done so. Section 7 of the Finance Act, 1931, only applied where the right had been exercised and the gross amount was greater than the net amount received.

Unfortunately, in the *Neumann* case, Lords Tomlin and Wright were also attracted by another argument based upon the fact that the company had distributed the whole of the fund. "Grossing" would result in a sur-tax charge "upon a sum which has not only never come to him but has never existed in fact," to quote Lord Tomlin. These remarks seemed to embody the principle that the dividends out of a fund could not exceed the fund itself; and this was regarded as the real principle of the case by Lawrence, J., in *C.I.R. v. Pearson* and *C.I.R. v. Pratt*; and he was followed by Finlay, J., in the King's Bench Division, and by the majority in the Court of Appeal in the present case. Lord Romer, there, dissented from his colleagues, and discussed the difficulty of the figures. He did not, however, touch the real problem. As a matter of fact, the incongruity of result obtained by "grossing" the dividend in the *Neumann* case is no greater than it would have been had the company, there, exercised the right which the Lords held that it possessed of deducting tax under Rule 20. The whole of the fund of £18,325 could have been notionally distributed less tax, and the company would still have had in hand £3,665, "a deduction which is not in fact tax," to quote Lord Atkin in the present case. It is the same position, but put the other way round.

The *Cull* case is, in fact, little more than the *Neumann* case shorn of its dross. At the same time, the position is seriously unsatisfactory because the interests of small shareholders who benefit by "free of tax" dividends are directly opposed to those of the sur-tax payers who will want dividends to be paid "without deduction of tax."

*Sur-tax—Deduction—Covenant to pay annually to trustees proportion of "total income"—Whether this includes income of investment company apportioned to the covenantor for sur-tax.*

In *Earl of Normanton v. C.I.R.* (K.B.D., May 9, 1939, Tax Leaflet 1027) the appellant covenanted by two deeds to pay to trustees annual sums less tax at the standard rate, equivalent in the one case to one-half of his "total income from all sources for that year," and in the other, which had somewhat different wording, to an amount "equal to a third part of his total income which shall accrue due and be receivable by him in that year." In computing, no deductions were to be made except those allowed for income tax; and the year was to be the income tax year. Income of an investment company amounting to £9,539 having been apportioned to the Earl for sur-tax, it was contended that this sum was within the covenants.

The case depended upon the principle of interpretation whereby words used in a document are presumed to have their common or natural meaning, the onus of proof resting upon anyone who contends to the contrary. It was argued that the parties to the deeds were thinking in terms of income tax—as undoubtedly they were—and that, as the apportioned amount was deemed to be income, it fell to be included in the computations. The Special Commissioners rejected this construction and the Earl fared no better elsewhere. Both Courts held for the common or natural interpretation; and in the Court of Appeal the Crown was not called upon. In the discussion, it was pointed out that whatever construction was approved would apply for all purposes. It was also observed that, on the meaning claimed, the Earl would be called upon to pay over what he had not received, was not entitled to, and might never get.

The evidence in the deeds was clearly much too slight for such serious consequences; and it is surprising that the matter should have been carried so far. As to the implications of the word "deemed," reference may be made to *Lewis v. C.I.R.* (18 T.C. 174, Lord Hanworth at p. 188).

*Sur-tax—Undistributed income of company—British company with shares owned by company abroad—Whether a subsidiary company under Section 21 (6) of Finance Act, 1922.*

*Barrowford Holdings, Ltd. v. C.I.R.* (K.B.D., May 25, 1939, Tax Leaflet 1029, Court of Appeal, October 30), was the case of a British company in which the whole of its share capital was owned by a company registered abroad. The Special Commissioners having made a direction under Section 21 of the Finance Act, 1922, the company appealed upon the ground that a subsidiary of a company incorporated abroad is a subsidiary company

within Section 21 (6) of that Act as amended by Section 31 (3) of the Finance Act, 1927. On appeal, the Special Commissioners decided that the company was not such a subsidiary company; and their decision has been upheld both in the King's Bench Division and in the Court of Appeal. In the latter the Crown was not called upon.

The sub-section as amended excludes from the operation of Section 21 certain companies; but does this by a very tortuous method. By definition, the expression "company" means a company within the meaning of the Companies (Consolidation) Act, 1908, and the commencing words of the sub-section are: "This section shall apply to any company which is under the control of not more than five

persons and which is not a subsidiary company." A company is deemed to be a subsidiary company where "by reason of the beneficial ownership of shares therein, the control of the company is in the hands of a company not being a company to which the provisions of this section apply. . . ." Lawrence, J., held that the words "a company," here italicised, mean only English companies. He rejected the construction that would make the sub-section read "the provisions of this section do not apply to companies which are not companies within the meaning of the Companies (Consolidation) Act, 1908." His interpretation, since upheld in the Court of Appeal, is doubtless in conformity with the intention of the sub-section.

## The Emergency Acts and Orders

*In our November issue, we published the first instalment of a comprehensive guide to the war-time enactments and Orders which most concern the accountant. The second instalment is given below. The summaries are not intended to be exhaustive but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.*

### ACTS

*Cotton Industry (Reorganisation) (Postponement) Act, 1939.*

The Cotton Industry (Reorganisation) Act, 1939, is not to come into operation until a date to be appointed by order of the Board of Trade.

*National Loans Act, 1939.*

The Treasury may raise money, in such manner as they think fit, to an amount of £250 million in addition to sums already voted, and for repayment of maturing securities issued under the War Loan Acts, 1914 to 1919. They may issue new securities and arrange to exchange them for existing securities. Trustees may invest in securities issued under the Act, notwithstanding anything to the contrary in the trust deed.

*Restriction of Advertisement (War Risks Insurance) Act, 1939.*

Circulars and advertisements inviting persons to insure property in the United Kingdom against war risks are illegal except by permission of the Board of Trade, which may impose conditions governing the allocation of funds and the keeping, auditing, and publication of accounts. The Board is to appoint an advisory committee.

### ORDERS

#### COMMUNICATIONS

*No. 1440.—Control of Communications Order (No. 3), 1939.*

It is forbidden to send by post without a permit to any of the countries named in the Order any printed matter, pictures, etc., postage or revenue stamps, impression of a Government die, seal or stamp, or any goods or commodities. Letters, trade circulars and similar documents are excepted unless sent by parcel post. A similar prohibition on conveying or sending otherwise than by post does not apply to goods or commodities, but covers letters and anything recording information.

### COMPENSATION

*No. 1534.—Compensation (Defence) Notice of Claim (No. 2) Rules, 1939.*

Claims under the Compensation (Defence) Act in relation to ships or aircraft, accommodation in ships or aircraft, and vessels under construction are to be made in the forms specified in the Schedule. (See ACCOUNTANCY, November, 1939, pp. 37 and 39, and December, 1939, pp. 55 to 57.)

### COURTS

*No. 1610/L. 27.—County Court (Emergency Powers) (No. 2) Rules, 1939.*

Amendments are made in the procedure laid down for applications under the Courts (Emergency Powers) Act, 1939.

*No. 1389.—Courts (Emergency Powers) (Northern Ireland) Rules, 1939.*

*No. 1538.—Courts (Emergency Powers) (Northern Ireland) (No. 2) Rules, 1939.*

The appropriate court in Northern Ireland for giving the leave required by the Courts (Emergency Powers) Act, 1939, in various circumstances is defined. Rules of procedure are laid down for applications to the High Court, the County Courts, and Courts of summary jurisdiction.

*No. 1503/S.108.—Courts (Emergency Powers) Scotland. Act of Sederunt regulating Proceedings under the Courts (Emergency Powers) (Scotland) Act, 1939.*

*No. 1586/S. 115.—Court of Session, Scotland. Act of Sederunt regulating Procedure regarding the taking of Evidence during the War.*

*No. 1388/S.100.—Court of Session, Scotland. Act of Sederunt regulating Proceedings under the Administration of Justice (Emergency Provisions) (Scotland) Act, 1939.*

*No. 1484/S.106.—High Court of Judiciary, Scotland. Act of Adjournment relative to Procedure in Criminal*



*Trials under Section 3 of the Administration of Justice (Emergency Provisions) (Scotland) Act, 1939.*

The procedure of Scottish Courts is modified in accordance with emergency legislation.

(See ACCOUNTANCY, November, 1939, p. 37.)

### EXPORTS

No. 1492.—*Export of Goods (Prohibition) (No. 2) Order, 1939, Amendment (No. 4) Order, 1939.*

The area to which goods in category C of the Export of Goods (Prohibition) (No. 2) Order, 1939, may not be exported now covers the whole of any country of which any part is in Europe or on the Mediterranean or Black Seas, and insular territories of these countries in the Atlantic north of latitude 10° north and east of longitude 35° west. France, French colonies and protectorates, Egypt and Palestine are excepted.

Nos. 1508, 1509, 1510, 1532, 1547, 1581, 1597.—*Export of Goods (Prohibition) (No. 2) Order, 1939. Amendment Orders Nos. 5, 6, 7, 8, 9, 10, 11.*

*List of Goods prohibited to be exported . . . November 15, 1939.*

A number of alterations are made in the list of goods which may not be exported or may be sent only to certain destinations. These are included in the consolidated list.

No. 1611.—*Open General Export Licence in respect of Goods sent by parcel post.*

The Export of Goods (Prohibition) (No. 2) Order is not to apply to goods sent by parcel post as *bona-fide* gifts if neither the donor nor the receiver is a body corporate. Parcels must not exceed £10 in value, and any necessary declaration must be signed by the donor.

### FINANCE

No. 1620.—*Defence (Finance) Regulations Amendment (No. 2) Order, 1939.*

No. 1621.—*Capital Issues Exemptions (No. 3) Order, 1939.*

Previous Defence (Finance) Regulations (Nos. 950, 1067 and 1251) and Capital Issues Exemptions Orders (Nos. 1007 and 1291) are revoked or superseded. The Treasury is given somewhat wider powers. Securities issued without consent are not invalid, but those responsible remain liable to heavy penalties. The prohibition of capital issues is extended to cover the creation or increase of a mortgage or charge. Issues may now be made to a total amount of £10,000 in twelve months and additions have been made to the classes of transactions exempted from the prohibition.

(See ACCOUNTANCY, November, 1939, p. 40.)

### IMPORTS

No. 1497.—*Imports of Goods (Prohibition) (No. 4) Order, 1939.*

No. 1504.—*Import of Goods (Prohibition) (No. 5) Order, 1939.*

A new list of "machinery" is substituted for the list under that heading in the Import of Goods (Prohibition) (No. 1) Order. The prohibition is extended to silver bullion and foreign silver coin.

No. 1505.—*Import (Certificates of Origin and Interest) Order, 1939.*

Goods consigned from the countries specified—which include nearly the whole of Europe—must have a certificate signed by a British Consular Officer that not more than 25 per cent. of the cost was derived from materials produced or work done in enemy territory.

### NATIONAL HEALTH INSURANCE

No. 1622.—*National Health Insurance (Subsidiary Employments) Order, 1939.*

Employment for less than 28 hours weekly in the Observer Corps, or as an auxiliary watcher employed by the Board of Trade, is declared a subsidiary employment and is not insurable. A special constable who is granted pay under the Special Constables Order, 1939, is not to be regarded as engaged in a subsidiary employment.

### NATIONAL SERVICE

No. 1485.—*National Service (Armed Forces) (Adjustment of Contracts) Regulations, 1939.*

No. 1616.—*National Service (Armed Forces) (Adjustment of Contracts) (Amendment) Regulations, 1939.*

Where a person serving under a contract of service or apprenticeship is called from that employment for service connected with the present emergency, in the absence of any agreement to the contrary, the parties are relieved of all obligations relating to the payment of remuneration, the performance of work, or the provision of work, maintenance or instruction.

No. 1541.—*National Service (Armed Forces) (Postponement Certificates) Regulations, 1939.*

Principles are laid down for the consideration of applications for postponement certificates under the National Service (Armed Forces) Act. No certificate is to be granted or renewed for more than six months at a time, and no certificate granted on the ground of business responsibilities may remain in force for more than twelve months in all. (See ACCOUNTANCY, November, p. 38.)

### RENT RESTRICTION

No. 1615/S.116.—*Rent Restrictions (Scotland) Regulations, 1939.*

New forms of notice of increase of rent are provided. Every rent book applying to a controlled house must contain a notice in the form prescribed.

### TRADING WITH THE ENEMY

No. 1516.—*Transfer of Securities to Enemy Subjects. Licence, dated October 30, 1939.*

The Board of Trade sanction the allotment or transfer to enemy subjects resident in the United Kingdom or France of company securities to which Section 5 of the Trading with the Enemy Act, 1939, applies.

(See ACCOUNTANCY, November, p. 41.)

### WAR RISKS INSURANCE

No. 1520.—*War Risks (Commodity Insurance) (No. 3) Order, 1939.*

War risks insurance policies relating to ships shall be for a period between October 3 and November 2, 1939, or November 3 and December 2, 1939.

No. 1502.—*Defence (War Risks Insurance) Regulations Amendment Order, 1939.*

Policies and certificates issued by the Board of Trade relating to insurance against war risks are exempted from the provisions of the Stamp Act, 1891, and the Marine Insurance Act, 1906.

No. 1543.—*Defence (War Risks Insurance) Regulations Amendment (No. 2) Order, 1939.*

The power of the Board of Trade to insure foreign ships against war risks is extended to re-insurance.

No. 1665.—*War Risks (Commodity Insurance) (No. 4) Order, 1939.*

The premium for policies issued under the War Risks Insurance Act, 1939, is to be  $\frac{1}{4}$  per cent. per month for the three months beginning December 3, 1939.

(See ACCOUNTANCY, November, 1939, p. 41.)

**LAW****Legal Notes****EXECUTORSHIP LAW AND TRUSTS**

*Grant of administration ad litem made to Official Solicitor—Administration of Justice Act, 1928, Section 9—Law Reform Act, 1934.*

The survival of causes of action against the estates of deceased persons by virtue of the Law Reform (Miscellaneous Provisions) Act, 1934, Section 9, has emphasised the importance of providing for proper representation of such estates in order that parties to an action can be constituted. Under the Administration of Justice Act, 1928, Section 9, the Court has discretion to appoint as administrator such person as it thinks expedient and also to limit any administration so granted. In some cases general grants have been made to nominees of parties intending to prosecute the causes of action. The Courts have a further power either to proceed in the absence of a representative or to appoint someone to represent the estate for all purposes of the proceedings. In the recent case of *In re the goods of Knight* (1939, 2 All E.R., 928) the facts were as follows: The intestate had been killed in a motor accident and the only estate was an insurance policy against third party risks. Two persons who were injured in the accident wished to bring an action against the estate of the deceased under the provisions of the Law Reform (Miscellaneous Provisions) Act, 1934, claiming damages in respect of their injuries. They asked that the Official Solicitor might be granted letters of administration to the estate of the intestate, parties entitled in priority having failed to apply. The grant was asked for solely that the person appointed might act as defendant in the action for damages. The Official Solicitor asked that the grant be limited to his defending the proposed action. Hodgson, J., made an order for a grant of letters of administration to the Official Solicitor, limited to his defending the proposed action. On the conclusion of that action the grant will cease.

**FINANCE****The Month in the City****Expanding Bank Deposits**

During the past month there has been a pronounced recovery in Security Markets, undoubtedly due primarily to the rapid expansion of credit. By the end of September the deposits of the clearing banks had risen by £33 million as compared with the August average, a movement closely bound up with a jump of £26 million in the banks' advances. In the following month deposits shot up by a further £49 million, but in this case, mainly due to an increase of £67 million in money market assets—that is, bills discounted and loans at call. This latter movement is a direct reflection of the increased issue of Treasury bills needed to finance the heavy

**INSOLVENCY**

*Bankruptcy Act, 1914, Section 56 (1)—Trustee carrying on bankrupt's business otherwise than for winding-up—No defence to guarantor in action by trustee.*

It was decided in *Re Branson*, 1914 (2 K.B. 701), that the provisions of Section 56 of the Bankruptcy Act, 1914 (allowing the trustee, with the consent of the committee of inspection, to carry on the bankrupt's business for its beneficial winding-up) were for the protection of the estate as between the trustee and the estate, and afforded no defence to any proceedings by the trustee against other parties. This principle was affirmed by the Court of Appeal in the recent case of *Clark v. Smith* (1939, 4 All E.R. 59). The facts were:—The trustee, at the request of the defendant (who entered into a guarantee to secure the estate against loss) carried on the bankrupt's business. A loss ensued, and the trustee sued the guarantor. Charles, J. had found that the business had been carried on not for winding-up, but in order to enable the bankrupt to continue to carry on the business, and was therefore contrary to the Bankruptcy Act, 1914, Section 56 (1); he held, therefore, that the guarantee was founded on illegal conduct and was unenforceable. The Court of Appeal allowed the appeal, holding that although the business had been carried on contrary to Section 56 (1), only a creditor could impeach the transaction, which provided no defence to the guarantor. The guarantee was not void as being contrary to public policy; there was sufficient consideration moving from the trustee to support the contract, and the guarantee was therefore enforceable. Du Parq, L.J., without dissenting, expressed some doubt. He said that had he been satisfied that the guarantee had been given for an illegal purpose, he would have dissented and have favoured dismissing the appeal.

expenditure on the war. In November this expansion of floating debt continued at an accelerated rate. The total of bills offered for application by the discount market on November 18 was raised to £65 million—the highest figure ever fixed since the weekly tenders were resumed and an excess of no less than £35 million over the bills falling due for repayment in the corresponding week. Thus the outstanding total of bills issued through the tender will probably have increased by some £139 million during November, as compared with only £51 million in October, and judging by the celerity with which the banks were buying bills during the early weeks of the month a large proportion of the additional bills

will have found its way into clearing bank portfolios. It will therefore be surprising if the clearing bank figures for end-November do not show an expansion in deposits of at least a further £70 million, which would mean a total increase of over £150 million since the outbreak of war.

#### Dominion Securities Soar

The immediate response of stock markets to this increase in the liquid assets of the public has been an instructive object-lesson in the possibilities of managing the gilt-edged market through cheap money even under war conditions. Apart from a slight reaction in the middle of the month, when some uncertainty was caused by talk of a German invasion of Holland as the first step in an intensification of hostilities against this country, gilt-edged securities have risen steadily ever since the leading securities first became unfrozen in the middle of October. As will be seen from the following table of a few representative price movements, War Loan on November 27 was 3½ points above its minimum price of 88½. The unfreezing of Government securities was followed after a short interval by a thawing of Corporation Stocks and home rail prior charges. But the real feature of the investment markets has been the boom in Australian and New Zealand stocks, some of which showed a rise on the month of as much as 18 points. In part this rapid upswing reflects the markets' belief that these Dominions, as primary producers, cannot fail to benefit appreciably under war conditions. It has already been announced, for example, that the British Government has arranged to buy Australian produce (including the entire wool clip and large quantities of base metals) to a value of £A100 million per annum. For the rest, the increased popularity of these Australasian securities is part of a general search for higher yields inspired by the desire to maintain income notwithstanding the penal increase in income tax, even at some sacrifice of security.

	Price Nov. 27	Change on month
War Loan ... ..	92½	+ ½
Australia 4% 1955/70 ... ..	98½	+8½
N.Z. 3% 1952/5 ... ..	84½	+12
Japanese 5% 1907 ... ..	47	+6½
Do. 6% 1924 ... ..	55	+9½
G.W. Ord. ... ..	30½	+1½
Meux ... ..	25/-	+ 3/-
English Electric ... ..	31/6	+ 1/-
Tube Invt. ... ..	85/-	+/-7½
Murex ... ..	3½	-½
Elder Dempster Holding... ..	24/6	+1/1½
Central Mining ... ..	12½	- ¾

Another outstanding feature of the month, it will be seen, was a quite remarkable recovery in Far Eastern bonds. At the outbreak of war in Europe it was difficult to foresee any early end to the exhausting war in China which threatened Japan no less than her victim with economic breakdown and currency collapse. Doubts as to the continued service of Japanese bonds were also aroused by the steady deterioration in relations with this country. As a result of the Russo-German rapprochement, however, Japan has shown unmistakable signs of desiring to terminate hostilities in China and to avoid becoming embroiled in an additional dispute with the Western powers. Add to this a marked

improvement in Japan's trade balance and the reasons for her improved credit rating in London are clear.

#### First Instalment of War Loan

As we have seen, the rapid recovery in security values after the initial shock of war has been due almost wholly to an expansion of credit (assisted by cheapening in its price involved in the restoration of Bank rate from the emergency level of 4 per cent. to its former 2 per cent.). Unfortunately, there are definite limits to this process if inflation is to be avoided. For a time monetary expansion may be perfectly safe because people are spending less, and so slowing down the velocity of circulation of bank deposits (the black-out has been a very helpful factor here), or because unemployed resources exist. Once this slack has been taken up, however, arms production and the Defence Services can only be further expanded by taking workpeople away from the production of consumption goods. And then the cost of living must rise unless the total of incomes (including those paid out by the State) is actually reduced *pari passu* with the contraction in the supply of consumable goods. It is obvious that this is a problem far transcending those with which our tax system normally has to cope, and it is this which led Mr. Keynes to put forward his interesting suggestion discussed in our editorial article that the incidence of income tax should be extended farther down the income scale and the tax supplemented by a forced loan. A more immediate method of curtailing credit expansion, however, is to fund part of the Treasury bill issue which has been expanding so rapidly. After the reduction in Bank rate and the passage of the National Loans bill no further obstacle remained in the way of an immediate issue of the first instalment of war borrowing, and the City has been confidently expecting that the issue of Savings Certificates and Defence Bonds to the small investor will be followed up by a large issue in the gilt-edged market very soon.

#### New "Ex-Div." Rule

Since war began, it will be recalled, the ordinary fortnightly settlements on the Stock Exchange have been suspended, and all dealings are now on a cash basis. The reason for this move, it is to be presumed, was to prevent the building-up of a large speculative position so as to reduce the possible vulnerability of the market to sudden collapse on adverse news. In the present quiet phase of the war, however, and with speculative interest in industrial and commodity shares damped down by E.P.T. and other factors, the effect of cash dealings has been to emphasise fluctuations rather than reduce them, since the market lacks the cushion of speculative buying on a fall and profit-taking on a rise. In the resulting narrow markets a very little buying or selling can cause disproportionately large movements in prices. Meanwhile the cash dealings system has led to one minor technical change in an amendment of the "ex-dividend" rule. Since transactions are now completed with greater speed it might in some cases have become possible for the buyer of securities "ex-dividend" to register his holding before the dividend was paid. To prevent this, the new rule provides that securities (other than registered debentures) must go "ex-div." on the Monday preceding the closing of the company's books.



## Points from Published Accounts

### Auditors' Certificates of Share Registers.—

In recent years an increasing number of companies have introduced into their reports certificates relating to the audit of share registers and transfers. One common form, which is to be found in the reports of the Rhokana Corporation and Roan Antelope (though the accountants are two different firms) states (1) that the certificates lodged with transfer deeds have been cancelled; (2) that new certificates prepared for execution by the company were in accordance with the transfer deeds; (3) that entries in the registers had been made in accordance with transfer deeds; and (4) that balances on the registers at the balance sheet date agree in total with the amount of stock issued. This form of certificate, with suitable modification for debentures and stock warrant applications, covers the important points on which shareholders desire to have assurance. In these two cases, and in the majority of other instances where auditors provide a certificate covering the share registers, the report is given to the members of the company and the work involved is stated to have been carried out in accordance with the instructions of the Board. A different type of certificate, however, is appended to the Standard Motor Company's balance sheet as at August 31, 1939. This certificate is incorporated with the general report to members on the balance sheet, but its terms are no less specific than the two forms discussed above. It states that the accountants have audited the stock registers of the company through the year, that all transfers have been correctly recorded, that the relative certificates have been properly authorised and that the totals agree with the issued capital as at the balance sheet date.

An auditor's certificate on the share registers, it may be suggested, is not a document contemplated by the Companies Act, 1929, and therefore it is distinct in character from the usual certificate on the balance sheet. There seem, in fact, to be good arguments for keeping such certificates, welcome though they are in any place in the report, apart from the statutory certificates which auditors and directors must provide under the Companies Act. Share register certificates are intended for the reassurance of shareholders that the share registration work of the company has been properly carried out, and that no forged certificates, which would prejudice the value of their own securities, are in issue. They have, accordingly, no direct reference to the financial position of the company concerned.

**Stock Values.**—An interesting contrast is found in the different treatment of stock values in recent reports from the Rhodesian copper companies. To choose two examples, the practices of Roan Antelope Copper Mines, Ltd., and Rhokana Corporation in valuing their stocks at June 30 last may be compared. The former company shows copper stocks in hand or in transit at £514,984, and the balance sheet gives details of the basis of this valuation, namely, 15,000 long tons at £25 per ton delivered Europe and 3,158 long tons at selling value. This

practice of taking a certain tonnage at selling value and a "round figure" tonnage at a price which is somewhat higher than average all-in costs (which last year amounted to £21.322 per long ton) is not new to the Roan Antelope Company.

That there is a sufficient margin of safety in this valuation is evident from the fact that a market price of copper at the balance sheet date was about £46 per ton. The directors of Rhokana Corporation, on the other hand, prefer to value their stocks of metal at cost. The proportion of this stock which may be in transit or in stock is not stated, and an analysis of the figure is further complicated by the fact that stocks include appreciable quantity of cobalt. In comparing the profits of the two companies, this difference in the basis of valuation should theoretically be taken into account, though that is a subtlety which few stockholders will consider to be worth pursuing.

**A Question of Depreciation.**—A number of interesting features emerge from the Austin Motor Company's report to July 31. Two pages are devoted to an extremely interesting twelve-year comparison of the profits and the financial position and a four-year comparison of balance sheets. The former yields a series of figures which are not to be found in the accounts proper—namely, expenditure on new buildings, plant, equipment, etc. These items are shown in the balance at cost, less demolitions or sales, without disclosing the new expenditure or amount written off. The new expenditure on both accounts totalled £441,701, while freehold land and buildings increased by £109,226 from £1,409,004 to £1,518,230, and plant and equipment increased by £284,340 from £3,874,031 to £4,158,371—a total increase of £393,566. Since plant and equipment is now shown before deducting depreciation (though it is subject to deduction for any sales which may have been effected during the year), it may be inferred that the amount written off freehold land and buildings (subject to the proviso above) is £48,135. The company has, for the past three years, shown plant and equipment before deduction of the depreciation reserve. The latest total is £4,329,981, against which a depreciation reserve of £2,353,888 is shown on the liability side of the balance-sheet. Up to 1936 plant and equipment was shown net at a total in that year of £1,572,511. Hence, there has been a net increase in these assets after depreciation of £403,582 in the past four years. The effect of the change in presentation is to contribute largely to the expansion in the balance sheet total of £6,249,441 at July 31, 1936, to £9,332,073 on July 31 last. It is somewhat unusual to find this method adopted by a large industrial concern, and while it sets out the facts with complete clarity, many accountants will prefer the more usual method of showing the net value of assets on the right-hand side of the balance sheet with an inset statement showing gross cost and the requisite deduction for accumulated depreciation.

## Britain's War Finance \*

### The £1,933 Million Budget

The total Government expenditure (excluding that of self-supporting services like broadcasting and the Post Office) in the financial year 1939-40, which ends on March 31 next, is estimated at £1,933 million. When Sir John Simon framed his original Budget estimates, last April, he put the total expenditure at £1,323 million. How do these figures compare with those of a normal year? In the financial year 1929-30 the total expenditure of the British Government was £771 million. In 1935—immediately before Great Britain turned her energies towards long-delayed rearmament—her total expenditure was almost identical with that of 1929, at £776 million. (In the meantime, she had saved approximately £30 million a year by her War Loan Conversion of 1932.) By 1938—the last complete pre-war year—the intensity of her arms efforts had driven the total expenditure up to £1,068 million. Actually her total expenditure on defence was £113 million in 1929, £137 million in 1935, and £400 million in the pre-war year 1938. In the current year, it is put at £1,249 million. (I should say here that, throughout this Paper, where I refer to a calendar year in giving Budget figures, the latter relate to the twelve months ending on March 31 of the following year.)

The latest available figures, which we have just been considering, relate to a year which is half peace-time preparation for war and half war in its opening phase, before hostilities have gained full momentum. What is likely to be the cost of the war itself? The Chancellor's figures suggest that he is envisaging a war expenditure of about £7 million a day. This, of course, is far more than in the opening years of the war of 1914-18, but the whole cost of waging war has largely increased since then. The figure of £7 million is, in fact, roughly what the last war was costing at the height of our effort in 1918. Now, if we assume a similar cost for the year 1940-41, and allow for civil expenditure on a reasonable war-time basis, we arrive at a total Government expenditure of rather less than £2½ milliard—say £2,400 million. Of that total, the yield on the existing basis of taxation, presuming that there is no spectacular rise in prices or inflation (but allowing for the increased yield in a full year of the taxes imposed in the last Budget), will be around £1,100 million—plus the unknown yield of the Excess Profits Tax.

Thus, as far as one can see now, we shall be financing rather less than half—on these figures, about 46 per cent.—of the Government's war-time expenditure, by taxation—plus the Excess Profits Tax yield.

### How Much will the War Cost?

If the war lasts three years, as the Cabinet has suggested, the total Government expenditure on this basis

of reckoning will be something around £7,000 million. That figure, you will note, has been reached on two assumptions—first, that there is no significant rise in prices, and, secondly, that the intensity of our war effort does not increase progressively as the war goes on. During and after the last war, between 1914 and 1920, prices were approximately trebled, but we have it on high authority that the Government has set its face against any course of events which is calculated to produce anything like that result again. But some rise in prices there must be, even if there is no inflation at all. If the cost of that part of the State's war-time expenditure attributable to our war effort showed, over the war period, an average rise of 50 per cent. (on the basis of an annual cost of non-war services of, say, £700 million), the total State expenditure during the war would be nearly £10,000 million. If the average rise in prices over the whole war period were 100 per cent., the total State expenditure during the war would be between £12,000 million and £12,500 million. On the present basis of taxation, we should roughly cover, say, £4,000 million to £4,500 million of this by taxation—allowing for some rise in the yield of existing taxes as a consequence of higher prices—plus the yield of the Excess Profits Tax. We should, in fact, finance from one-third to one-quarter of our total war-time expenditure by taxation, and increase our national debt by anything from £5,000 million to £8,000 million, which would give us a total post-war national debt of £12,000 million to £15,000 million.

### We, Not Posterity, Must Pay

Before we leave the field of pure arithmetic for that of policy, and ask ourselves what the authorities really ought to do for the best, there are one or two general points to consider. The history of the Reparations question after the last war is a tragic instance of the evils which may ensue from the mistaken application to the affairs of nations of concepts which are entirely sound when applied to the life of a single individual. For example, a private person, quite rightly, regards the money he pays in taxation as something lost to him for ever. But from the viewpoint of the State as a whole, taxation is comparable rather with the housewife's duster, which takes no dust away, but merely moves some of it from one position to another. Taxation is a process involving, not the loss or destruction, but the *transfer* of resources. Again, the private individual regards the difference between spending and saving as being identical with a choice between immediate consumption and non-consumption. The unconscious transference of that analogy to the plane of national finance produces the type of statement which, I greatly regret to say, we all remember having heard in the highest quarters—that the choice between taxation and Government borrowing is between asking the present generation to bear the burden, or placing some part of it on the shoulders of posterity. But in fact there is only one sense in which posterity can be made to bear any part of it—and that is if dire concentration on the war effort itself impels us to use up, or not to replace,

\* A summary of a Paper read by Mr. Hargreaves Parkinson, Editor of *The Financial News*, before a joint meeting of the Incorporated Accountants' South Wales and Monmouthshire District Society, and local branches of the Institute of Chartered Accountants, the Chartered Institute of Secretaries and the Institute of Bankers, on November 1, 1939.

assets which posterity would otherwise have used after the war was over. For example, if we are compelled to allow the physical condition of our railways to deteriorate in war-time, then posterity will pay by way of less efficient post-war railway services—or, alternatively, by way of the material effort required to restore them to their former level of efficiency.

### Increasing the National Income

The national income can be increased if more people are at work, or if the same people work harder; or its constituents can be changed (like the constituents, say, of pooled petrol), if more people and more energy are set to the making of particular kinds of goods and services rather than of others. In fighting a war, it is necessary both to alter the constituents of the national income and to increase its total. A much larger share of the whole, obviously, has to be produced in the form of war-like implements and the services of military, naval, air and organisation personnel. But that is not sufficient. The national income must be increased in absolute terms. People, by one means or another, have to be induced to work harder and more intensively. People who normally do not work in a gainful way at all, have to be brought in—particularly women. To effect the far-reaching changes required, the Government has three broad kinds of powers at its disposal. The first is the law under which, for example, all fit men of specified age can be ordered to transfer, for the war's duration, from their existing occupations to the work of the fighting services. Another of the forces behind the Government—and a very powerful one—is the patriotism of good citizens. But many of the changes which are indispensable to a war effort can be effected only by persuasion of an economic kind. The Government must agree, in fact, that for certain services it will pay a certain price.

The State can and does take back by way of taxation a great deal of what it pays out to those who serve it. But it must leave them with some margin as an incentive to a special effort on its behalf. And, other things being equal, that margin must be greatest where the value of the special service which the State requires is highest.

In theory it is entirely feasible for the State to take over the entire national income by way of taxation and to dole out subsistence rations to all of us. In practice, if it attempted to do so, the national income would fall considerably, and the production of those goods and services which are most vital to the State—judged by the fact that, as things are, it is prepared to pay most for them—would fall off most, because the lack of a differential incentive would, in their case, be greatest.

### National Income and the War Effort

In the three years, 1911 to 1913, immediately before the last war, the national income was put at approximately £2,250 million, and as total Government expenditure averaged £165 million a year, its ratio to the national income—which is the true "burden of taxation"—was 7½ per cent. In 1929, which in many ways ought to be regarded as the last "normal" post-war year for the Exchequer, the national income has been estimated at slightly under £4,400 million, while total Government expenditure was £771 million—a ratio of 17½ per cent. Undoubtedly, the national income is higher to-day. I think most authorities who have studied the matter

would put it for 1938 at something between £5,000 million and £6,000 million, of which national expenditure represented something over 20 per cent. For the whole of this year, with eight months of increasing rearmament activity and growing employment, plus four months of war, the total is probably somewhere near £6,000 million. The total Government expenditure for the present financial year is put, as we have seen, at only £67 million short of £2,000 million. Thus, we can broadly say that State expenditure, at present, is about 33 per cent. of national income.

Leaving aside any rise in prices, by how much can we expect the national income to rise under the spur of the national war effort? Given the right organisation, and the determination of everyone to do his part when the safety of his country is at stake, I believe that a further rise of 20 to 25 per cent. should not be beyond the bounds of probability. With a war-time national income of, say, £7,500 million, if the present proportion of 33 per cent. turned over to the war effort were merely maintained, we could have war budgets totalling £2,500 million a year. If the national safety demanded even more than that, I believe that the State could ask its citizens to shoulder the sacrifices entailed by a war budget covering not 33 per cent. but 50 per cent. of the national income—or, say, £3,500 million to £3,750 million a year, or approximately £10 million a day.

### Taxing v. Borrowing

Given a total war-time Government expenditure equal to 50 per cent. of the national income—and it has been suggested by an authority of no less standing than *The Economist* newspaper that the proportion could be raised even to 60 per cent. without leaving the public with a lower standard of living than in 1918—how should the total expenditure be divided between taxation and borrowing? I suggest, as a very rough division, that about 33 per cent. of the national income would be a practicable ratio for taxation, so that each year's borrowing would be equivalent to about 17 per cent. of the national income. In other words, in a typical war-time year, when our national effort had attained its full dimensions, our national income would be approximately £20 million a day, of which we should be spending £10 million on the war. Taxation would bring in about £6½ million a day and we should be borrowing about £3½ million a day. If the war lasted three years, its cost would be around £11,000 million, of which £7,500 million would be defrayed by taxation and £3,500 million would be added to the National Debt. If there were any widespread rise in prices, and particularly if inflation on a large scale were allowed to develop, these huge figures would be further increased. I can confidently say that such an effort can be made with a standard of living far above a starvation level, and probably at an average standard significantly higher than that of the German people at this very moment.

If that be so, how should the Treasury set about raising the money? The first part of its task is to find, at the peak of our war campaign, some £2,500 million a year of tax revenue. The present basis of taxation would give us about £1,100 million, plus the yield of the Excess Profits Tax. I have already postulated a war-time rise of something like one-fourth in the real value of our national income (apart from any changes



in the general price level) and some of this would be automatically reflected in the yield of existing taxes. Allowing for that factor, and making an arbitrary estimate for the yield of the Excess Profits Tax, I think that our present taxes would, in war-time, give us something of the order of £1,600 million to £1,700 million of revenue. To reach £2,500 million, therefore, we should have to impose new taxes to bring in £800 or £900 million.

### The Need for Novel Taxes

That is a staggering task. How is it to be achieved? We can be assured that it will *not* be achieved by the expedient adopted by the Chancellor in his first war-time Budget, of taking the old and tried duties—*income tax*, beer, tobacco and sugar—and screwing them up to the highest pitch that public opinion will endure. These duties have been so well and truly exploited by past Chancellors that the scope for fresh increases is severely limited. There seems to be no doubt whatever that the Treasury must break entirely new ground; that it must devise some fresh forms of taxation embodying completely novel conceptions of the art of revenue collection. The *desiderata* are fairly clear. The new taxes must be widely spread over the whole community. The rich are already being effectively soaked; and existing indirect taxation on articles of general consumption like tea, sugar and tobacco affect only a relatively narrow range of popular satisfactions. The new imposts must automatically “cash in” on a rising national income, while leaving individual taxpayers with a sufficient non-taxed surplus to encourage the effort to achieve an increased income. And they must be designed deliberately to damp down unessential consumption, and thus to expedite the transfer of labour and other productive resources to war-time industries.

### Three Novel Taxes Suggested

The upshot, I suggest, should be in the next Budget: first, a series of heavy war-time taxes on luxury or semi-luxury products—including those consumed by all classes, and not by the rich alone; secondly, a turnover tax; and, thirdly, an extension of direct taxation to cover salaries and wages now below the effective income-tax limit; the tax to be collected by direct deductions from weekly or monthly pay, by employers, on the same lines as national insurance payments at present.

These new imposts would fall on all sections of the community—that, indeed, is one of their main objectives. And they would reduce national consumption—that, in the exceptional circumstances of war-time, is another of their main purposes. But they would certainly be good revenue-producers. And, to the extent that they discouraged national spending in certain directions, they would facilitate the Treasury's task of borrowing.

### How Government Borrowing Works

This brings us to the question of Treasury loan policy. The modern theory of Government borrowing is not really occult, as some responsible people in Whitehall and elsewhere would appear to believe. In its essentials, it is straightforward enough. The Government gives out its war-time orders and, in due course, a large number of people who co-operate in carrying them out are remunerated by way of profits, wages, commissions, etc. Some of the proceeds speedily return, like homing

pigeons, to the Government's coffers as the fruits of direct taxation. The rest can be either “spent” or “saved” by their recipients. If they are “spent,” then part of them is caught up by a well-spread net of consumption taxes, and the remainder represents potential savings or spendings in the hands of the butcher, baker, or candlestick-maker. Thus, in due course, the Government's outgoings percolate through the entire community, and it is the Treasury's task to tap them at each stage, by giving either a tax receipt or a loan certificate.

Now, that process can be facilitated in two ways. First, by taxation on the lines I have suggested, certain forms of private spending will be discouraged and private saving will be increased, so that the time needed for what may be called the percolation process will be shortened. Secondly, the Government can institute measures of capital market control which, in effect, shut out other competitors for the investment of available savings at home or overseas. These measures have already been instituted. To a large extent, the Government now enjoys a monopoly, as an absorber of the national savings. Its task is to wait until a sufficient head of savings has accumulated, and then to draw them off.

In the City of London there is general agreement that the time for the Government's first loan issue is now not far away. Some people expect an announcement this month; others believe that one will certainly be made before Christmas. Last week's reduction in Bank rate from 3 per cent. to 2 per cent. is interpreted as part of the window-dressing for the operation. And I, for one, believe that a further reduction to 1 per cent., announced simultaneously with the loan issue, would be a wise move, both psychologically and financially; for, by reducing the yield on money kept on deposit almost to zero, it would emphasise the attraction of the interest yield obtainable by investment in the new loan.

### A Scheme for War Loans

There are three points I would like to emphasise in connection with the Government's entire war-time borrowing programme. First, the policy laid down by the Chancellor in his September Budget speech, of offering different classes of stocks to suit the needs of every type of investor, is eminently wise, but the issue of all the different categories of stock need not be simultaneous, and there are sound reasons why it should not be. I need not go into technicalities here, except to say that the least desirable proceeding is for the Government to borrow from its bankers, the Bank of England. So far as the country as a whole is concerned, the result of that process is a considerable potential increase in the volume of credit, which, if nothing is done to neutralise it, provides the raw material for inflation.

The first stage in borrowing, therefore, is for the Government to finance itself by borrowing on short-term bills—usually of three months' duration—either from the specialist bill-discounting institutions of the City of London, or from Government Departments with surplus funds for the time being. The next stage is to drain off the surplus of the commercial banks themselves, and of the insurance companies and other large institutions which are prepared to hold big portfolios of gilt-edged investments, and substantially to increase them

in war-time, but who do not wish to tie up too large a proportion of their resources for too long a time ahead. For them, stocks with a life limited to anything from one to ten years are most attractive. Finally, the general public may be prepared to absorb the longer dated stocks, but here the time-lag to allow for what I have called the percolation process is longer, and patience on the Treasury's part, in waiting until the precise moment has arrived for a long-term issue, will have its reward in terms of the amount of money subscribed and the rate of interest at which it may be obtained.

I believe, therefore, that there is a good deal to be said for limiting any issue which the authorities may make before Christmas to the more specialised institutional investor, by offering a relatively short-term stock with a correspondingly low rate of interest, and waiting until after the New Year before making the first appeal, with a longer-dated stock, to the public at large. Indeed, I believe something might be gained by waiting till next year before making even a short-term issue.

Secondly, while there is certainly something to be said for having one type of war-time issue always on tap for the smaller type of saver, I believe that, in general, the fewer the number of Treasury visits to the market, in the course of each year of the war, the better. The whole thing should go off, each time, with a bang, after a vast amount of careful preparation, and with the employment of every device of publicity and persuasion known to this age of high-pressure salesmanship. It follows, therefore, that the amount asked for each time should be as large as possible. Earlier in this address, I have suggested that the maximum amount of borrowing each year should be on the average about £1,250 million, and I do not think that the authorities should aim at raising less than say £800 million to £1,000 million by each series of borrowing operations—including, of course, all the different kinds of stock, long-term or short-term, comprised in each single series.

Finally, I believe that the authorities ought not, on any account, to try to cajole the investor by offering him a high rate of interest, particularly at the outset. The Government has already closed alternative avenues of investment at home and abroad, and, once a significant volume of savings has accumulated inside this closed system, it is in the national interest that—within reason, of course—the Government, as a monopolist mopper-up of these savings, should dictate something like the monopolist's price. At the moment, a longish issue of, say, fifteen to twenty years could hardly be financed with an interest rate of much less than  $3\frac{1}{2}$  per cent., but the position will probably be different in a few weeks' time. Before next April's Budget is opened, such a stock may be issuable at under 3 per cent. That is another argument for waiting.

The ideas I have here suggested are, in a sense, "modernist," and I am not at all sure how far they are accepted by the powers-that-be in Whitehall. Whether they carry conviction is a matter I must leave you to judge. What is certain is that the Government, in this matter, cannot afford to make mistakes. The more constructive and courageous its policy, the better are the prospects of bringing this war to a victorious conclusion with the least disturbance to our economic system, whereas a timorous policy may make inflation,

with all its evils, inevitable. Let us hope that the Treasury, with its record of inspired achievement as the guardian of our national finances, will prove more than equal to its responsibilities at this crucial time.

## IN PARLIAMENT

### DEATH DUTIES (NATIONAL SERVICE)

**Mr. Foot** asked the Chancellor of the Exchequer whether he will introduce legislation similar to Section 29 of the Finance Act, 1917, whereby the statutory provisions for remission of death duties on the estates of soldiers and sailors killed in war are extended to cover the case of a master or a member of the crew of a ship or fishing boat dying from causes arising out of the operations of the war?

**Captain Crookshank** : My right hon. friend is ready to agree in principle that legislation on the lines of Section 29 of the Finance Act, 1917, should be introduced to deal with the cases of the Mercantile Marine and fishermen, and he would propose to include provision accordingly in next year's Finance Bill.

**Mr. Foot** : Would it not be difficult in next year's Finance Bill to make the legislation retrospective? Would it not be better to bring in a simple one-clause Bill covering the matter now, as there are bound to be cases arising between now and next spring?

**Captain Crookshank** : I think it would be difficult only if the House did not approve, and I should imagine that it would have universal approval.

**Mr. Foot** : In that case, would the Government consider introducing legislation on these lines, which would have universal approval, before the Finance Bill?

**Captain Crookshank** : I do not think it would be necessary. I dare say that any such cases could be delayed pending a final settlement.

**Mr. Charles Williams** : Would it not be possible to deal with this in a one-clause Bill now? Everyone would agree.

**Mr. Foot** asked the Chancellor of the Exchequer whether he will introduce legislation extending the provisions of Section 14 of the Finance Act, 1900, as amended by subsequent Statutes, whereby Death Duties are remitted on the property of persons killed in war, to cover cases of Civil Defence volunteers who lose their lives in the performance of their Civil Defence duties?

**Captain Crookshank** : My right hon. friend regrets that he cannot see his way to introduce legislation on the lines proposed.

### DEATH DUTIES (ARMED FORCES)

**Mr. Joel** asked the Chancellor of the Exchequer whether it is proposed in this war to adopt the practice of remitting death duties on the estates of all Army, Navy and Air Force personnel who are killed on active service; and, if so, whether this concession will extend to any of the Civil Defence services as well as the fighting forces?

**Sir J. Simon** : The estates of soldiers and airmen up to and including the rank of lance-sergeant and of sailors up to and including the rank of chief petty officer, who are killed in action, are wholly exempted from Estate Duty. Where a member of the Forces of higher rank than any of these is killed in action and his estate passes to his widow, lineal descendants, lineal

ancestors, brothers and sisters, or descendants of brothers and sisters, the first £5,000 of the estate is exempt and there is a relief on the remainder, the amount of which is dependent upon the age of the

deceased. In reply to the last part of my hon. friend's question, I would refer him to the reply which was given to the hon. Member for Dundee (Mr. Foot) on October 9. [This reply is given above.]

## **PUBLICATIONS**

# **The Month's Publications**

**Tables of Procedure.** By Bertram Nelson, F.S.A.A., and J. F. H. Templer, LL.B., Solicitor. 3rd Edition. (Solicitors' Law Stationery Society, Ltd., 22, Chancery Lane, London, W.C.2. Price 2s. 6d. net., post free 2s. 9d.)

This work has been considerably extended since it was first published in 1933. The present edition covers the essential points of procedure in chronological order in relation to (1) company formation, alterations of capital and reconstruction; (2) voluntary and compulsory liquidations; (3) receiverships; (4) Bankruptcy; (5) Deeds of Arrangement; (6) Executorship; and (7) Investigations. During the past year or two many accountants have had a somewhat harsh awakening to the fact that time is the essence of the contract in relation to liquidations and bankruptcies, particularly in regard to the filing of accounts. In earlier days it was the custom of the departmental officials to deal somewhat leniently with dilatory trustees and liquidators, but the practice of the departments to-day is to call for strict compliance with the requirements of the law. These Tables of Procedure, used as a desk book, make it possible to verify these requirements afresh in each case, and will materially assist the practitioner to avoid the direful consequences of delay. Some of the sections of the book, notably those dealing with Executorship and Investigations, are not concerned with the performance of specific duties within a given number of days, but the summaries show very clearly the duties to be undertaken in the order in which those duties would require attention in normal cases. The section on Investigations deals only with matters for consideration in advising on proposed investments. This section might well be extended in future editions to cover other classes of investigation. These Tables of Procedure will appeal at once to the man with an orderly mind who will certainly use them without a second bidding; to the man who does not possess an orderly mind their use is an imperative necessity.—RICHARD A. WITTY.

**"Taxation" Key to War Taxes.** (Taxation Publishing Co., Ltd., London. Price 3s. 6d. net.)

This very useful volume is intended as a quick reference book, and deals with the "war taxes," Excess Profits Tax and National Defence Contribution, in two separate sections. The authors very wisely include the full text of the relevant legislation, and students cannot be too often urged to refer constantly to the exact wording of the Acts.

National Defence Contribution has already gathered a

certain body of interpretation arising from actual practice, and it is perhaps not unfair to say that the National Defence Contribution section (which is the longer) shows signs of this. Nevertheless for this very reason the chapters on Excess Profits Tax, even if more prophetic in character, will be read and studied with the greatest eagerness and interest, since this is one of the earliest books on the subject to appear.

The chapters on the scope of Excess Profits Tax and the computation of profits are very adequate, though close study does not lead one to agree with the conclusions reached in every case. Strangely enough, the book does not mention that Excess Profits Tax is to be allowed as a deduction in arriving at income tax profits, and that repayments on account of Excess Profits Tax deficiencies are chargeable to income tax (Section 18, Finance (No. 2) Act, 1939).

The National Defence Contribution chapters are well done, and make this very complicated tax reasonably clear. This section in particular contains some very useful examples.

The thumb index to the chapter headings makes for easy reference, but the index as a whole is rather sketchy. The book is bound in paper covers. This perhaps accounts for the very moderate price, although it has its disadvantages, especially in a work intended for frequent reference. In the case of the present reviewer the covers fell off on reaching page 97!—JAMES G. MCBURNIE.

**Lectures and Transactions of the Incorporated Accountants' Students' Society of London and District, 1938-39.** (Incorporated Accountants' Hall. Price 3s. 6d. net; 4s. post free.)

Once again the publication of "Transactions," by the Incorporated Accountants' Students' Society, presents us with a compendium of information in the form of lectures and discussions designed primarily for the edification of the student. Few of us could be specialists in all the branches of accountancy covered by these lectures, which combine the theory necessary for examination purposes with the practical points and more abstruse problems illustrating and consolidating the theory. We do not wish to mislead those unfortunate few who are unfamiliar with this publication into thinking that it is merely a collection of academic discussions, for a perusal of it will show it to be well leavened with humour.

In a short paper delivered at a Students' Evening, Mr. J. M. Keyworth demonstrates some of the interesting problems that can arise in connection with Schedule "A," and on the same occasion there were short but valuable talks by Mr. J. E. Sparrow on "Hospital Accounts" and by Mr. J. R. Messenger on "The Conduct of a Share Transfer Audit." Mr. Sebag Shaw, Barrister-at-Law, has the ability of conveying to others his understanding



of the law, and his lecture on "Negotiable Instruments" is a model of clarity and comprehensiveness.

Mr. Richard A. Witty's reputation for putting thoughts well into words is confirmed once again by his lecture on "Public Speaking for Students." His own precepts are followed, and this talk reads as well as it was delivered. In Mr. G. G. Honeyman, who is a barrister well versed in taxation matters, the Students' Society made a good choice for a lecturer on the changes in the Finance Act, 1938, dealing with legal avoidance. A short history of the use of trust settlements for this purpose is a valuable beginning, and helps towards a clearer grasp of the necessity for the changes. To induce the Senior Official Receiver to come out of his shell and lecture on "Liquidations" is a meritorious feat, and the result is a valuable contribution from the official point of view on this difficult

subject. Mr. W. J. Back is well known as a lecturer, and in this volume displays his versatility by leading a discussion on "Examination Questions" and by lecturing on "Problems on Income Tax and National Defence Contribution."

Also included in the volume are such varied contributions as "The Practical Presentation of Statistical Data," by Dr. A. E. Feaveryear; "The Exchange Equalisation Account," by Mr. J. C. Rea Price, the City Editor of *The Star*; "The Remedies of Debenture Holders," by Mr. D. Tolstoy; "The Relation of the Auditor to the Organisation of a Commercial Concern," by Mr. J. J. Elsdon; "The Difficulties of International Trade as Created by Currency Restrictions," by Mr. H. W. Phillips; and a demonstration "Meeting of Directors to Settle Annual Accounts."—H. S. TOVEY.

## Society of Incorporated Accountants

### COUNCIL MEETING

WEDNESDAY, NOVEMBER 22, 1939

Present: Mr. Percy Toothill (President) in the chair, Mr. Richard A. Witty (Vice-President), Mr. F. J. Alban, Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. Henry J. Burgess, Mr. Alexander Hannah, Mr. Walter Holman, Mr. Henry Morgan, Mr. Bertram Nelson, Mr. C. Hewetson Nelson, Mr. James Paterson, Mr. F. A. Prior, Mr. R. E. Starkie, Mr. Joseph Turner, Mr. R. T. Warwick, Mr. Fred Woolley, Mr. A. A. Garrett (Secretary) and Mr. L. T. Little (Deputy Secretary).

Apologies for non-attendance were received from Mr. A. Stuart Allen, Mr. D. E. Campbell, Mr. Arthur Collins, Mr. W. Allison Davies, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Edmund Lund and Mr. A. H. Walkey.

#### ARTICLED CLERKS AND SPECIAL BYE-LAW CANDIDATES NOW IN H.M. FORCES OR ENGAGED IN OTHER FORMS OF WHOLE-TIME NATIONAL SERVICE

The Council adopted the following resolutions:—

That discretion be allowed to the Examination and Membership Committee to recognise the whole or any portion of a period of service in H.M. Forces or in other whole-time National Service during the present war as service under Articles of Clerkship, provided that the Committee shall be satisfied that each candidate has had a reasonable period of professional training. Each case will be considered on its merits when the candidate returns to the profession or applies to sit for the appropriate examination.

As Articles of Clerkship are a contract between the employer and the clerk, it is considered that any further time which may be necessary to complete the clerk's professional training is primarily a matter for agreement between them.

It will be the aim of the Committee in each case to ensure that no candidate shall be unnecessarily prejudiced by undertaking National Service during the period of the war, but it is essential that candidates shall be adequately trained for the practice of their profession.

#### SPECIAL BYE-LAW CANDIDATES SERVING WITH H.M. FORCES OR IN WHOLE-TIME NATIONAL SERVICE

That discretion be allowed to the Examination and Membership Committee to recognise the whole or any portion of a period of service in H.M. Forces or in other whole-time National Service during the present war as service under the Special Bye-Laws provided that the Committee shall be satisfied that each candidate has had a reasonable period of professional training. Each case will be considered on its merits when the candidate returns to the profession or applies to sit for the appropriate examination.

It will be the aim of the Committee in each case to ensure that no candidate shall be unnecessarily prejudiced by undertaking National Service during the period of the war, but it is essential that candidates shall be adequately trained for the practice of their profession.

#### WAR EMERGENCY COMMITTEE

The Council confirmed the appointment of a War Emergency Committee of the Council to deal with urgent matters arising from war circumstances. The Committee consists of the President, the Vice-President, Mr. E. Cassleton Elliott and Mr. Walter Holman.

#### ABSENTEE PRACTITIONERS

A report was received as to information afforded to practising members of the Society in regard to the protection of their practices should they be absent on service with H.M. Forces.

Authority was given for the publication in ACCOUNTANCY of a memorandum dealing with the method of signing reports and accounts on behalf of an absentee practitioner and upon the question of professional responsibility in these circumstances.

#### EXAMINATIONS

A report was received of the arrangements made for holding the Society's examinations on December 19, 20 and 21, 1939, at centres at Taunton and Southport (for candidates in England and Wales), and at the usual centres in Scotland and Ireland and South Africa.

The arrangements were confirmed.

#### DEATH

The Secretary reported with regret the death of the following member:—

SHENNAN, JOHN (*Fellow*), Buenos Aires.

## DISTRICT SOCIETIES AND BRANCHES BRADFORD

### Syllabus for Remainder of 1939 Session

December 7.—Students' Discussion Meeting.

\* December 13.—Lecture: Executorship—Accounts and Liabilities, by Mr. R. Cleworth, B.A., LL.B.

Meetings held at Liberal Club, Bank Street, Bradford, at 6.30 p.m.

\* By kind invitation of Bradford and District Chartered Accountants' Students' Association.

### SOUTH WALES AND MONMOUTHSHIRE

A lecture on "Britain's War Finance" was given by Mr. Hargreaves Parkinson, Editor-in-Chief of the *Financial News*, at the Engineers' Institute, Park Place, Cardiff, on November 1. A report of the lecture is given on pages 70 to 73 of this issue of ACCOUNTANCY. The lecture was given to a joint meeting of the members of the South Wales and Monmouthshire District Society of Incorporated Accountants, the South Wales and Monmouthshire Society of Chartered Accountants, the Local Centre of the Institute of Bankers and the South Wales Branch of the Chartered Institute of Secretaries. Mr. A. E. Thomas, F.C.A. (President of the South Wales and Monmouthshire Society of Chartered Accountants) was in the chair, supported by Mr. Percy H. Walker (President, Incorporated Accountants' South Wales and Monmouthshire District Society), Mr. W. A. Harries (President, Local Centre, Institute of Bankers) and Captain Brynmor Anthony (President, the South Wales Branch of the Chartered Institute of Secretaries). Mr. Percy H. Walker proposed a vote of thanks to the lecturer, and this was seconded by Mr. W. A. Harries.

## MEMBERSHIP

The following additions to and promotions in the membership of the Society have been completed since our last issue:—

### ASSOCIATES TO FELLOWS

**Friis**, Eric (Shaw, De Freece & Co.), London, Practising Accountant; **Spofforth**, Stanley Albinus (Spofforth and Prince), London, Practising Accountant; **Thayer**, Charles Dudley (Langton & MacConnal), Liverpool, Practising Accountant; **Watson**, Leonard Arthur (Clarkson & Rumble), London, Practising Accountant.

### ASSOCIATES

**Bickerton**, Geoffrey Mayson, with Ernest Royle & Co., Manchester; **Bowker**, John Herbert, with T. Millward Fish, Ashton-under-Lyne; **Castle**, Eric Frank, with Chantrey, Button & Co., London; **Cryer**, John Peter, with Kingscott, Dix & Co., Gloucester; **Fein**, Edward Arthur, with Stagg, Mather & Hough, Paris; **Hollings**, Percival Albert, with Allan, Charlesworth & Co., London; **Jefferies**, Frederick Elwyn, with Jennings & Watkins, Neath, Glam.; **Mackintosh**, Angus, with Spain Brothers, Staite & Co., Worthing; **Mann**, Sam, formerly with Albert A. Henley & Co., London; **Malpas**, Douglas Wellard (Malpas, Simmons & Co.), Bourne-mouth, Practising Accountant; **Royle**, Leonard, formerly with Geo. A. Marriott, Rogerson & Co., Man-

chester; **Smith**, Harold Charles, Borough Accountant, Leominster, Hereford; **Smith**, Kenneth Herbert, with G. Leonard Foulds, Nottingham; **Thuman**, Leonard, with Prior & Palmer, Nottingham.

## PERSONAL NOTES

Messrs. Graves & Scase, of 12, Clarence Street, Kingston-on-Thames, announce that they have taken Mr. D. S. Pond, Chartered Accountant, into partnership. The style of the firm will remain unchanged.

It was stated in the November issue of ACCOUNTANCY that the practice hitherto carried on under the style of Bobart, Baskett & Bryant would in future be carried on as Bobart & Bryant. The correct title of the firm is now Baskett & Bryant. There is no change in the constitution of the firm.

Mr. R. W. Woodhead, A.S.A.A., formerly Senior Assistant Auditor, National Insurance Audit Department, Stoke-on-Trent, has been promoted to Auditor in charge of the District Office at Birmingham.

On November 9, 1939, Alderman John Potter, J.P., F.S.A.A., was unanimously elected Deputy Mayor of Blackpool for the year ending November, 1940. Alderman Potter was Mayor of Blackpool during 1928-29 and he has now been chosen as Deputy Mayor for the coming year with a view to giving special advice and assistance during the war period. Alderman Potter was also unanimously re-elected Chairman of the Finance Committee of the Blackpool Corporation, having held this office ever since the 1928-29 year of office.

## CHANGE

Messrs. D. G. Joshi & Co., Incorporated Accountants, of National Insurance Buildings, Esplanade, G.T. Madras, announce that they have opened a branch office at Kermani Building, Sir Pheroza Shah Mehta Road, Fort, Bombay.

## REMOVALS

Mr. W. S. Tomlinson, Incorporated Accountant, has removed to St. George's Chambers, Merrial Street, Newcastle, Staffs.

Messrs. Beal & Young, Incorporated Accountants, announce a change of address to 21, The Avenue, Southampton.

Messrs. Crinkley & Co., Incorporated Accountants, have temporarily removed their offices from Bow Lane, London, E.C.4, to 47, Manor Road North, Esher, Surrey.

## OBITUARY

### JOHN SHENNAN

We regret to announce the death of Mr. John Shennan, F.S.A.A., Buenos Aires. Mr. Shennan became a member of the Scottish Institute of Accountants in 1883 prior to that body becoming the Scottish Branch of the Society. At that time he was in practice in Edinburgh. He afterwards took up an appointment in Peru and later practised in different cities in South America. For many years after leaving Scotland he kept up his connection with the Scottish Branch.

1939

stant,  
with  
nard,

street,  
taken  
ship.

ANCY  
rle of  
rried  
rm is  
con-

enior  
part-  
ditor

J.P.,  
or of  
lder-  
28-29  
r the  
and  
otter  
the  
aving  
e.

ants,  
G.T.  
anch  
ehta

has  
reet,

ants,  
enue,

ants,  
lane,  
sher,

John  
ame  
ts in  
anch  
ce in  
ment  
s in  
land  
anch.